Attachment A

PKF Hotel Incentive Study

PKF
CONSULTING
USA

May 30, 2014

Mr. Gerry Miller
City of Los Angeles
200 North Spring Street
Room 255
Los Angeles, California 90012

Dear Mr. Miller:

In accordance with your request, we have completed a review of hotel incentives that have occurred in other municipalities and have developed a baseline criteria for the establishment of a hotel incentive program in the City of Los Angeles. Our analysis included the following:

- Review of examples of incentives that were provided in other areas for hotels. We reviewed 16 projects where incentives were provided, including an analysis of key metrics of each project.
- Utilizing existing examples and incorporating the attributes of Los Angeles and its submarkets, we developed a baseline set of criteria for the provision of incentives for new hotels in Los Angeles. This included:
    - Minimum number of rooms
    - Comply with CEQA requirements
    - Minimum quality standard
    - Room block agreement
    - Other potential criteria (branding, community benefits, labor agreement etc.)
- We then focused on several specific sub-markets based on their specific attributes and the level of need/benefit that additional hotels would bring to those markets.
- For the City of Los Angeles as well as these submarkets, we developed a summary of the proposed incentives to be offered, including the rationale for the level of incentives identified as appropriate.
- Lastly, we provided commentary on setting criteria for the reception of hotel incentives for renovation projects.

The following presents our analysis and recommendations relative to the above.

I. PURPOSE OF INCENTIVES

A number of municipalities have shown that some public investment is often needed to augment the large private capital that is required to develop hotel and tourism facilities. Many cities have induced the development of a hotel rooms through public financial participation in the project. Public involvement usually falls into two general categories: public/private partnerships and public financing. In a public/private partnership, the project is typically owned and developed by the private partner, and public involvement takes the form of a public incentive program or "bridging the gap" between the cost of construction and financing the project and the combination of equity and loans a private developer is able to secure.

The question that is fairly, and more frequently being asked is, why commit public money to support development that many feel should be left to the private sector? The answer is that there are considerable returns that come from the development and operation of hotels that are captured by the public sector. To the extent that municipal and state governments can achieve a reasonable return on their investment while creating jobs and an amenity in their city, these types of partnerships can be a win-win for both private sector developers and the taxpayers.

FISCAL & ECONOMIC IMPACT

Growing Tax Revenues

Tourism is one of the most highly taxed industries. Among the obvious tax revenues that can be expected to increase with the development of a hotel are transient occupancy taxes. TOT's of fifteen to as high as nineteen percent are common in major U.S. cities. Sales taxes of all kinds also benefit from an influx of visitors. Local tax rolls also benefit from airport landing fees as well as taxes on taxis and rental cars. Tourist spending habits also tend to be strong on highly taxed fuel and liquor. Many regions have added highly tariffed casino gambling as yet another way to keep tourists' dollars in their communities. Of course payroll taxes are also collected from the jobs created to build and operate the property.

Job Creation and Entrepreneurial Development

Not only is tourism a highly taxed industry, but it is a labor intensive industry that produces jobs for both skilled and unskilled workers. Examples of the types of jobs created by a major hotel include hotel and convention sales jobs, catering positions, retail workers, movers, front desk clerks, housekeeping, taxi and limousine drivers, entertainers, decorators, engineers, meeting planners, airline employees, secretarial and business services, and a wide range of hotel and restaurant personnel. These jobs have the added benefit of being tied to place. Manufacturing jobs or services such as credit card processing can be moved out of a community at any time, but the bellman's job cannot be done remotely.

A vital tourism industry also creates a wide range of entrepreneurial opportunities along with the resultant new job creation. Among these are restaurants, retail, transportation services, catering, entertainment, and business services.

EXAMPLES OF PUBLIC FINANCING MECHANISMS

Given the challenge to finance hotel development in this market, combined with reduced property values, there continues to be a disconnect between development cost and the ability to effectively finance construction of a variety of hotel project types. In an effort to drive hotel development, many municipalities have sponsored a portion of the development costs through a subsidy of some sort. These vary widely and may include any of the following or a combination thereof:

- Fee Waivers
- TOT rebate
- Parking tax rebate
- Other tax rebate or deferral
- Bond Issuance

While these tools are generally used to drive the development of token projects, in recent years, their use has become more prevalent. Municipalities are finding creative ways to stimulate development through the creation of an area incentive program. These include Palm Springs, Escondido, Anaheim, Garden Grove, Los Angeles, and San Diego, to name a few. In many cases, several types of rebate programs have been utilized in combination. One example in Anaheim is the establishment of a market Revenue Per Available Room (RevPAR), and any new project receives a rebate of transient occupancy tax created over and above this set base.

II. REVIEW OF HOTEL INCENTIVES PROVIDED IN OTHER MUNICIPALITIES

We have gathered information on a number of projects where hotel incentives were provided for the development of new hotel facilities or the renovation of existing hotel facilities. The following presents a summary of each project and the incentives provided. We also gathered examples of municipalities with set criteria for providing hotel incentives.

MUNICIPAL INCENTIVE PROGRAMS

The following presents examples of special area or municipal incentive structures. These include convention center overlay zone and city-wide incentive programs.

Palm Springs - Hotel Operations Incentive Program

The purpose of this chapter is to provide an incentive program for the operation and maintenance of quality and first class hotel facilities which enhance the tourist and travel experience for visitors to the city of Palm Springs, maximize the use of the city's convention center, provide attractive and desirable visitor serving facilities and experiences, and assist the city in achieving its tourism goals.

Incentive Program

(a) First Class New Hotels. The city shall pay to an operator of a first class new hotel an amount equal to fifty percent of the adjusted tax rate[1]. Such payments shall be made for twenty years or until the operator has been paid fifty million dollars, whichever event occurs first. Without regard to any preceding conditions of this section, the program shall terminate at any point the first class new hotel is not operated as a first class hotel.

(b) Deluxe New Hotels. The city shall pay to an operator of a deluxe hotel an amount equal to fifty percent of the adjusted tax rate. Such payments shall be made for twenty years or until the operator has received twenty-five million dollars, whichever event occurs first. Without regard to any preceding conditions of this section, the program shall terminate at any point the deluxe hotel is not operated as a deluxe hotel.

(c) New Quality Hotels. The city shall pay to an operator of a quality new hotel an amount equal to fifty percent of the adjusted tax rate. Such payments shall be made for ten years or until the operator has received twenty-five million dollars, whichever event occurs first. Without regard to any preceding conditions of this section, the program shall terminate at any point the new quality hotel is not operated as a new quality hotel.

(d) Existing Hotels. the city shall pay to an operator of an existing hotel an amount equal to fifty percent of the transient occupancy tax increment collected and remitted to the city pursuant to Chapter 3.24, the T.O.T. section of the municipal code. Such payments shall be made for ten years, or until the operator has been received twenty-five million dollars, whichever event occurs first. Without regard to any preceding conditions of this section, the program shall terminate at any point the existing hotel is not operated as a hotel.

Kentucky

In 1996, the state of Kentucky enacted the Kentucky Tourism Development Act. Known as the KTDA, this economic incentive program is the most aggressive tourism incentive program within the U.S. as it boasts 17 completed projects since its inception. The KTDA legislation specifically addresses a pro-growth attitude toward tourism development at the state level by providing incentives for private developers to create or add to existing tourism attractions that benefit the state's tourism industry. The incentive vehicle for the KTDA is a state sales tax reimbursement. State programs such as the Arkansas Tourism

[1] The "Adjusted Tax Rate" is the transient occupancy tax to be rebated. For hotels on 124 rooms or less, the rate is 10.4 percent and for hotels of 125 rooms or more, the rate is 12.4 percent.

Development Act, The Colorado Regional Tourism Act, Vision Iowa's CAT program, and others use a variety of methods including TIFs and grants to incentivize tourism development. Several states including Georgia and Pennsylvania are currently in the process of developing or modifying their own legislation for incentivizing tourism developments. Georgia is in the process of creating the Georgia Tourism Development Act, and Pennsylvania has pending legislation to establish the Pennsylvania Tourism Commission, which would replace their existing travel and tourism act.

Key characteristics include performance based incentives, defined minimum project costs, and specifics regarding qualifying locations and types of attractions. Many use the word "destination" when defining tourist project locations.

Austin, Texas

The purpose of the Convention Center overlay district is to protect and enhance the health, safety, and welfare of the public, to promote pedestrian activity and vitality in the Convention Center area, and to protect the existing character of the area.

Except as otherwise provided in Subsection (C), the Convention Center overlay district applies to the land bounded on the west by the boundary line for the Congress Avenue combining district; on the north by the boundary line for the East Sixth/Pecan Street combining district and extending eastward across IH-35 to Waller Street; on the east by Waller Street and an imaginary centerline of Waller Street, if that street were extended in a straight line south to intersect the shoreline of Town Lake; and on the south by the north Town Lake shoreline.

Based on the size of a proposed hotel project and the proximity to the Convention Center the city may potentially grant incentives to developers, although recent examples have been minor as compared to the overall development cost of the entire project. The most recent example is the under construction 1,012 JW Marriott that is slated to open in February 2015. Developer White Lodging received approximately $4.3 million in incentives (primarily waived development fees), or less than 1.5 percent of the total $300 million development cost after agreeing to pay prevailing wages to workers during the construction of the hotel.

Cathedral City, California

On August 8, 2012 the Cathedral City Council proposed an ordinance which would act to incentivize the opening, operation and renovation of new and existing hotels in Cathedral City in order to expand the city's tourism industry and create new sources of transient occupancy tax revenue for the city's general fund. The ordinance would add a new chapter to the city's municipal code, Chapter 3.25, providing for an incentive program whereby the city and an existing or proposed hotel could enter into a transient occupancy sharing agreement. If agreed to, the agreement would provide that the city would rebate a portion of the transient occupancy tax increment generated by the new or renovated hotel.

After a proposed new hotel, or existing hotel which plans a renovation, submits an application for participation in the transient occupancy tax sharing program, the city council will cause to be prepared a "tax sharing report" which analyzes factors including: (1) the existing level of transient occupancy tax generated by the hotel and the amount of said tax to be generated after construction or renovation; (2) the expected amount of transient occupancy tax increment; (3) the quality of the hotel; (4) the total projected cost to construct or renovate the hotel; (5) the necessity for public assistance, and (6) any other factors which the city council in its sole discretion deems appropriate. After considering said factors, the city council will determine the appropriate rate of sharing (i.e. the percentage of the tax increment to be rebated), and the appropriate time period for sharing.

The city council will then hold a noticed public hearing on the contemplated transient occupancy tax sharing agreements. After the public hearing the city may by resolution authorize city staff to negotiate and prepare an agreement with the hotel, which will be brought back for final approval by the city council. The agreement may provide for appropriate rate of transient occupancy tax increment to be shared for an appropriate time period, as determined by the city council at its sole discretion.

The rate of transient occupancy tax sharing is capped at: 50 percent of the tax increment generated and actually received by the city from existing hotels, and 75 percent of the tax increment generated and actually received by the city from new hotels, unless the city council, in its sole discretion, determines otherwise. The time period for sharing with existing and new hotels is capped at 10 years, unless the city council, in its sole discretion, determines that a longer time period is necessary to achieve the goals and intent of the program. All hotels which enter into an agreement must record against the hotel property operating covenants to run with the land regarding (1) continuing use of the hotel, (2) maintenance and (3) non-discrimination. The city may terminate any agreement upon 10 days' notice if the hotel violates any of these covenants. All hotels which enter into an agreement with the city must also execute an indemnification agreement in a form approved by the city.

Park College, Georgia

The Convention Center District is established to promote development having an unparalleled intensity in the City of College Park, Clayton County and South Fulton County. The District responds to this desire by accommodating substantial development density and land utilization. In exchange for such development rights, the district establishes architectural design, materials and site development standards that serve to promote high quality development projects.

Ultimately, the uses and manner of establishment and operation must benefit the overwhelming public investment in the Georgia International Convention Center (GICC), located in Atlanta and proximate to the Hartsfield-Jackson Atlanta International Airport. The hotels, restaurants, retails shops and service establishments will serve to enhance the attractiveness of the GICC as a convention destination/focus/venue. The Convention Center

District is therefore established to foster mixed use, high intensity development that advances local and regional goals, intergovernmental cooperation and capitalizes on regional transportation improvements.

Anaheim, California

Anaheim Resort Specific Plan

The purpose of the Anaheim Resort Specific Plan is to provide a long range comprehensive plan for future development of approximately 549.5 acres within the 1,046-acre Anaheim Resort. The Specific Plan establishes an overall identity and land use plan which is intended to maximize the area's potential, guide future development, and ensure a balance between growth and infrastructure.

Especially relevant to the development of the Anaheim Resort Specific Plan are the following General Plan Policies:

- To maintain and encourage Anaheim's position as a nationally recognized tourist, convention and recreation center;
- To increase sales tax yields and further enhance the economic base of the community, thereby lessening the tax burden on real property;
- To encourage to development of quality facilities which complement conventions, family entertainment, and recreation within appropriate areas of the community; and,
- To maintain the integrity of the Commercial Recreation Area (now referred to as the Anaheim Resort) by permitting only compatible land uses within this designated area.

Key overall goals of the Anaheim Resort Specific Plan include:

- To foster the growth of the City's economic potential by revitalizing the Anaheim Resort;
- To ensure that development complements the City's investment in the Anaheim convention Center and other area resources and interests; and,
- To create a coherent, unique resort identity that reinforces the Anaheim Resort's image as a high quality destination resort.

The specific incentives to be provided and the basis therefore have not yet been finalized.

SPECIFIC PROJECTS WITH HOTEL INCENTIVES

City of Anaheim – Lake Project

Anaheim established a market Revenue Per Available Room (RevPAR) incentive program, and any new projects receive a rebate of transient occupancy tax created over and above this set base. A case in point is Lake Development which reached a TOT rebate agreement with the City of Anaheim for a mixed-use, 252-room hotel project to be located across the street from the Anaheim Convention Center at the intersection of Harbor Boulevard and Katella Avenue. This project enhances the center by adding high quality guest rooms that are convenient to what is one of the West Coast's largest exhibition halls. Terms include a potential TOT subsidy for a period of 15 years and up to a maximum of $44 million in future TOT reimbursements.

City of Palm Desert – JW Marriott expansion

In January 2012, the Palm Desert City Council voted to approve the city's first tax rebate deal, which is worth $1 million to the J.W. Marriott Desert Springs Resort. The rebate will help the hotel finance the construction of a water park. How it would work is, after the water park opens the hotel would keep whatever transient occupancy tax it earns above what it would be expected to if the park had not been built, until that figure reaches $1 million. According to the hotel's General Manager it is anticipated that the transient occupancy tax rebate will remain in effect for approximately five years and that building the waterpark would potentially increase the annual occupancy of the hotel by as many as three occupancy points.

City of Garden Grove – Proposed Water Park Hotel

On April 12, 2011, the Garden Grove City Council voted unanimously to approve the implementation of $51 million in bonds to help fund the construction of a proposed 600-room water park resort hotel. Under the agreement revenue from the project will be used to pay back the bond. The bonds were intended to close the feasibility gap on the $300 million project and allow for Great Wolf to break ground on the project in 2012. The incentives equated to 17 percent of the total project budget.

City of Chicago – Proposed Hyatt Place Hyde Park

In June 2012, the City of Chicago approved $5.2 million in incentives for a proposed 131-room hotel at Hyde Park at the corner of Harper Avenue and East 52nd Street. The $33.8 million project will include 131 guest rooms, 50 subterranean parking spaces, fitness center, and pool. The $5.2 million subsidy equates to 15.4 percent of total project cost and is being funded by tax increment financing (TIF). The incentives require that the project adhere to the following:

- Construction jobs – The hotel will utilize union workers, who will be paid prevailing wage. At least 28 percent of construction jobs will be placed with minority and women-owned businesses.

- Permanent jobs – We are currently projecting the hotel will have approximately 25 full-time positions when the hotel opens in spring 2013. Most of the hotel jobs will be full-time positions. The wages paid for those jobs will exceed the city of Chicago's living wage scale (including tips for tipped employees). Benefits will include the following:
    - Bereavement pay for the loss of an immediate family member.
    - Personal, vacation, sick time and paid holidays
    - Medical, dental, short-term disability and life insurance coverage.
    - A company-sponsored 401K plan after six months of employment.

- Workforce Training - The hotel will partner with the Black United Fund of Illinois (BUFI) to develop a workforce training program in hospitality targeted to community residents. This unique program is designed to create job opportunities for community residents at the hotel, as well as other hotels in the region.

- Environmental sustainability – The hotel is designed to be LEED certified.

Santa Barbara County – Proposed Montecito Hotel (Miramar)

In June 2012, the County of Santa Barbara passed an ordinance allowing new hotel developments to receive an incentive of up to 70 percent of their bed tax for a period of 15 years after completion. The main project that drove this process was the proposed Miramar Hotel in Montecito. The 186-room project intends to pay prevailing wages to an anticipated 1,000 construction workers. Exact application of the ordinance and identification of the specific incentives for each project have yet to be determined.

City of Escondido – Proposed Springhill Suites

In May 2010, the City of Escondido requested an amendment to the Hotel Economic Development Incentive Agreement for a proposed Springhill Suites. The amendment requested a three year extension to the original agreement, which called for a ten year incentive of 55 percent of the transient occupancy tax generated by the 105-room proposed property at 300 La Terraza Boulevard. The incentives have a ceiling of $1.45 million for cumulative benefits. The City estimates that it will be generating approximately $339,158 annually at the 10 year mark and cessation of incentives.

City of Cincinnati – Hyatt Regency Cincinnati Renovation

In June 2012, the City of Cincinnati provided an incentive to ownership of the Hyatt Regency to complete a $17 million renovation. In exchange for completing a renovation of the 485-room property, the City has agreed to sell the land underneath the hotel, which the City owns, at a reduced price to ownership of the hotel. The land is valued at approximately $3.65 million and will be sold to hotel ownership for $2.1 million, or an incentive amount of $1.55 million, or 9.1 percent of the total renovation amount.

Colorado, Gaylord Aurora Project

In May 2012, the Colorado State Economic Development Commission awarded Gaylord a state sales tax incentive pursuant to the state's Regional Tourism Act enacted in 2009. The incentive award provides for an annual rebate of 65.8 percent of the state sales tax generated by the project for the first 30 years of its operation. As a result, the project would receive 65.8 percent of the state's 2.9 percent sales tax, equaling 1.91 percent of project revenues annually over its first 30 years of operation. The $800 million, 1,500 room project is slated to open in 2016. The 30 year incentive package has an estimated value of $81.4 million, which equates to 10.2 percent of the project budget. In addition to this State incentive, the City of Aurora is also providing significant incentive assistance.

Kansas City – Proposed Hyatt Hotel

In July 2012, the Kansas City Tax Increment Financing Commission approved a funding agreement with BH Plaza, LLC relative to a proposed 225-room Hyatt Hotel. The incentives would include $11 to $13 million through TIF.

City of Durham – Proposed 21c Museum Hotel

In August 2012, the Durham City Council approved a $5.7 million incentive package for the conversion of a 17-story building to a 120-room hotel. With a total budget of $48 million, the incentives contribute 11.9 percent of the project. Conditions of the package include deadlines for start and completion of construction.

City of Palm Springs – Proposed Port Lawrence Hotel

The City of Palm Springs has reached a preliminary agreement with the developer of the proposed 175-room Port Lawrence Hotel to rebate a portion of the TOT associated with the project that would typically go to the city's general fund. The current TOT rate in the city is 11.9 percent. Per the terms of this agreement the developer is to receive 75 percent of the total TOT generated on an annual basis for a period of 20 years, with the total amount not to exceed $50 million. This project is of particular interest to the city as it improves the marketability of the Palm Springs Convention Center by adding high quality rooms to their existing inventory. It is anticipated that this upscale project will also encourage additional restaurant and retail development in the immediate Downtown Palm Springs area.

Palm Beach County – Proposed Hilton Convention Center Hotel

In July 2012, Palm Beach County approved an updated hotel development deal with The Related Companies to complete an approximately $107 million hotel project. The hotel will be a 400-room Hilton adjacent to the convention center. The incentive package includes a 3 acre parcel, valued at $10 million, that will be leased to the hotel at a maximum of $1 million per year, plus $27 million in subsidies. Funding/sourcing of the incentives is yet to be determined.

City of Wilmington – Proposed Westin Riverfront

The City of Wilmington is in the process of approving approximately $9 million in incentives for a proposed 180-room Westin. The project has a total cost of $37 million. The incentive package equates to 24.3 percent of the total budget and includes financing guarantees and land concessions. The property is slated to open in 2014.

City of Los Angeles – Past Examples of Hotel Incentives

We recognize that you are familiar with these projects and have presented the following for comparison and discussion purposes.

The City of Los Angeles, on previous occasions, has provided a portion of future tax collected by the establishment of new lodging rooms. This type of incentive has been utilized in both the LA Live and Grand Avenue projects in downtown Los Angeles, as well as for the 218-room Residence Inn and 174-room Courtyard development adjacent to LA Live. For LA Live, the City of Los Angeles agreed to assist in the financing of the 1,001-room downtown hotel through approximately $80 million in incentives and loans. The deal stated that the hotel will receive a rebate of at least $246 million in the hotel bed taxes it is expected to generate during the first 25 years of operation, which translated to a then present value of approximately $65,000,000 (based on a 10.0 percent discount rate). On March 25, 2011, City Council gave preliminary approval for a $54 million subsidy for the Grand Avenue project, also in the form of TOT rebates of a portion of net-new revenue to the City. This project was slated as a 275-room Mandarin Oriental.

With the opening of the JW Marriott in February 2010 and the Ritz-Carlton in April of the same year, the downtown lodging market has experienced significant growth in both occupancy and ADR. The downtown lodging market readily absorbed the new supply (1,001 rooms) in their first year of operation. With a 16.4 percent growth in annual supply in 2010, occupied rooms grew by 24.0 percent. In 2011, occupied rooms grew by another 10.9 percent. This is despite two prior years (2008 and 2009) of occupancy decline related to the recession and amidst its slow recovery. Average daily rate grew by 6.5 percent in 2010, followed by additional growth of 10.2 percent in 2011. The addition of these two new hotels has clearly had a positive impact on the downtown Los Angeles market, as shown in the table on the following page.

Historical Market Performance of Downtown Los Angeles Hotels with Average Daily Rates Above $110.00										
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2006	1,886,685	N/A	1,385,862	N/A	73.5%	$124.81	N/A	$ 91.68	N/A
2007	1,892,890	0.3%	1,418,390	2.3%	74.9	132.20	5.9%	99.06	8.1%
2008	1,911,505	1.0	1,341,190	-5.4	70.2	147.46	11.5	103.47	4.4
2009	1,911,505	0.0	1,154,941	-13.9	60.4	133.81	-9.3	80.85	-21.9
2010	2,225,405	16.4	1,431,992	24.0	64.3	142.51	6.5	91.70	13.4
2011 E[1]	2,276,870	2.3	1,588,710	10.9	69.8	157.11	10.2	109.62	19.5
CAAG	0.7%		1.3%			6.1%		6.8%	

[1]Estimate
Source: PKF Consulting's *Southern California Lodging Forecast 2012*

The Courtyard and Residence Inn incentive packages provide for a rebate of TOT equal to half of the revenue collected from sales tax, property tax, parking tax, business tax, and transient occupancy tax (TOT) generated by the project over its first 25 years. The estimated $67.3 million incentive package has a present value of approximately $21.9 million.

CONCLUSION

The municipal examples include convention center overlays, revitalization areas, and specific geographic zones wither within a city or municipality or covering the municipality in its entirety. They present a wide range of incentive products, including tax increment financing, TOT rebates/incentives, and sales tax rebates. Most of them present a range of incentives that can be offered, while others, such as the Anaheim Resort Area, present very specific terms as to what the incentive will be.

Specific project examples previously presented ranged from 105 to 1,500 rooms, with an average room size of 377 rooms. The examples represent a wide range of hotel type and product, including luxury and full service hotels, convention hotels, and limited service hotels. A common factor is that most of these projects occurred in key areas within their municipalities. i.e. near the convention center, within a major revitalization zone, or within or adjacent to a historic landmark.

III. BASE CRITERIA FOR HOTEL INCENTIVES IN LOS ANGELES

Based on the incentives utilized in other municipalities, the incentives previously provided at LA Live and Grand Avenue, and our recommendations, we have developed a set of base criteria for providing hotel incentives within the City of Los Angeles. The following presents our recommendations and basis therefor.

MINIMUM NUMBER OF ROOMS

The examples previously presented ranged from 105 to 1,500 rooms, with an average room size of 377 rooms. The examples largely represent convention center hotels or larger hotel projects near the city center. We recommend a room count minimum towards the lower end of the range given the variety of submarkets within the City of Los Angeles.

Specifically, we find 200 rooms to be a reasonable criteria. This is approximately double the average property size within the greater Los Angeles market, which consists of 983 properties with a total of 97,004 rooms.[2]

COMPLIANCE WITH CEQA REQUIREMENTS

We find it reasonable to incorporate a requirement of compliance with CEQA in order to qualify for hotel incentives.

MINIMUM QUALITY STANDARD

On a national basis hotel facilities are evaluated and rated by two organizations, the American Automobile Association (AAA) and the Forbes Travel Guide (formerly known as the Mobile Travel Guide). The AAA rates hotels on a rating of between one to five diamonds, while Forbes ranks hotels on a basis of between one and five stars. We recommend a minimum quality standard of facilities and service equal to the general requirements of both an AAA three diamond property and Forbes three star property.

ROOM BLOCK AGREEMENT

Any proposed project within ten miles of the convention center should be subject to a room block agreement in order to qualify for hotel incentives. For hotels within the Los Angeles Sports and Entertainment District, the room blocks should equate to 70 percent of the rooms being added; for hotels within the rest of the downtown area, the rooms block should equate to 60 percent of the rooms being added; and for the anything outside of downtown it should be 0 to 50 percent, depending on location.

OTHER CRITERIA

Other criteria evaluated include branding, community benefits, and labor agreements. For branding, we recommend that either the branding or sponsorship behind the project be sufficient to support a 110 percent RevPAR penetration of the local competitive set. This means that the proposed hotel would have Revenue per Available Room (Average daily room rate times occupancy percentage) at least ten percent above that of the market. This would result in new projects lifting the local markets which we find usually results in the rest of the market also being able to raise their rates. This further supports the minimum quality standard criteria.

Projects should drive additional community benefits, such as providing conference space and other amenities in areas with insufficient hotel facilities. This would be reviewed on a case by case basis.

We understand you are evaluating a labor-agreement criteria and find this to be reasonable given the number of comparable projects also incorporating a labor agreement. This appears to be in line with the industry.

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[2] Based on June – August 2012 Edition of Hotel Horizons, STR

SUNSET DATE

Based on our discussions and findings we recommend the incentives defined herein "sunset" or expire five years from the date of the adoption of this ordinance.

IV. SUBMARKET ANALYSIS

There are several areas within the City where we recommend refinements be incorporated into the basic criteria to meet additional targeted policy goals. Specifically, we have focused on the following three areas:

- Within ½ mile of the Los Angeles Convention Center (LACC)
- Downtown Los Angeles
- Hollywood
- East Valley/North Hollywood
- LAX

LACC

The location of hotel rooms within half a mile of the LACC has been identified as an important policy consideration. The ability of the Center to drive additional city-wides hinges on the development of additional quality hotel rooms within proximity to LA Live and the Convention Center. Additional TOT could be provided to the project if it is located in that target area and provides a threshold number of rooms. This is further discussed in the incentive discussion in the next section.

We have reviewed several examples of convention overlay districts and incentive programs oriented specifically to a convention center zone, as presented in the beginning of this report.

HOLLYWOOD, NORTH HOLLYWOOD AND LAX

Adjustment of the portion and term of TOT incentives were also considered for Hollywood, North Hollywood, and LAX. Hollywood continues to be significantly underserved in terms of hotel product, with the W Hollywood being fully absorbed within a year of opening. The North Hollywood area has been increasingly revitalized with the opening of the North Hollywood Metro station, Similarly, the LAX market consists of a number of larger hotels that post occupancies in the low to mid 80's percent, though at a significant discount in terms of ADR (Average Daily Room Rate), and we believe renovations to the existing hotel rooms and expansion of the amenities offered in the LAX area would raise the fundamentals within this market, resulting in additional fiscal benefits to the City. Amenities should include additional restaurants, retail, and visitor serving amenities.

V. CITY OF LOS ANGELES HOTEL INCENTIVES

Based on our analysis, we present the following recommendations for hotel incentives within the City of Los Angeles.

BASE INCENTIVES

If a project meets the base criteria, we recommend a base level of hotel incentives of 25 percent of the net new fiscal benefits. The total incentives given, however, may not exceed 40 percent of Transient Occupancy Tax (TOT) collected during the incentive period. For example, if a property drives $10 million in fiscal impact, the incentive would be limited to $2,500,000. If TOT collections represent $7,000,000 of the $10,000,000, then the incentives would be capped by TOT collections at $2,800,000 (40 percent of $7,000,000).

Our percentage incentive recommendations are based on a myriad of factors, including, most notably: rising land costs coming out of the recession and construction costs in the local market as compared to the nation as a whole. Specific areas where the aforementioned projects costs in totality were deemed to be the greatest were judged to be eligible for the greatest percentage incentive package (herein noted as 50 percent, for example – larger, full-service hotels in Downtown Los Angeles in proximity to the Los Angeles Convention Center) and those projects that were deemed less expense to construct/renovate given specific market parameters were considered to only be eligible for a more minimal level of incentive package (herein noted as 25 percent, for example – the renovation of an LAX area hotel). Each of these criteria is described in further detail in the following paragraphs.

Given the increased attractiveness of Downtown Los Angeles, in particular, to commercial developers of all types given increased economic activity, an increasing population, and numerous new amenities the price of vacant land has at least roughly doubled over the past five years. Prior to the revitalization of the Downtown area, land prices on a per square foot for prime sites would typical sell in the range of $300.00, while in today's market there have been a number of recent sales in the mid $500.00 range and even one sale across from LA LIVE that was sold for $895.00 per square foot. Thus given that land prices are increasing at a much faster pace than average daily room rates we find it reasonable that incentives are warranted in this regard.

It is difficult to estimate or summarize the development cost of proposed hotels in general, but based on our experience, actual hotel development budgets provided to us in the normal course of business, and available data from Marshall Valuation Services (MVS), a national cost estimating service, we can comfortably say that developing hotels in urban markets, and especially in dense markets such as Downtown is more expensive on a per square foot basis than in suburban areas, or many other parts of the United States. According to the most recent figures available from MVS, the construction costs to develop a new hotel ranges from 1.20 to 1.22 times the national average based on building type and class. This is one of many factors that has contributed to an annual average growth in rooms supply in Los Angeles County of 0.7 percent between 1988 and 2013, well below the national average of 1.8 percent for the nation over the same historical period.

To summarize:

- Base Incentives – the lesser of:
    - 25 percent of total net new fiscal impact
    - 40 percent of TOT collections

Net new means that the existing use and tax streams are deducted from the proposed hotel projections in order to calculate the net new revenues to the City.

We recommend a time period of 20 years of TOT incentives.

FUNDING GAP

We recommend the dollar amount of the hotel incentives be limited to a supportable funding gap in the proposed development. A feasibility analysis would have to be completed, whereby a projection of operating performance is combined with project development cost in order to determine the funding gap. A discounted cash flow of the project should include ten years of projected operating income and a reversionary value utilizing a reasonable terminal capitalization rate.

Once the funding gap is identified, a net present value analysis of the base incentives should be completed. Through the application of a discount rate, the future stream of incentives can be presented as a present value dollar amount. <u>This should not exceed the funding gap identified above.</u>

SPECIAL AREAS

As previously discussed, there are several areas within the City that we believe are underserved by hotels and/or are targeted policy goals. This includes the area surrounding the LACC, as well as the submarkets of Hollywood and LAX.

For the ½ mile area surrounding the LACC (currently defined as a ½ mile radius in any direction from the intersection of Figueroa Street and Chick Hearn Court), we recommend the following if the project exceeds 300 rooms:

- Special Area Incentives LACC Zone – the lesser of:
    - 50 percent of total net new fiscal impact
    - 100 percent of TOT collections

For the rest of Downtown Los Angeles, with Downtown being defined as the area bounded on the northeast by the 101 Freeway, on the east by the Los Angeles River, on the south by the 10 Freeway, and on the west by the 110 Freeway. We note that this definition of Downtown Los Angeles also includes the boundaries used for the Streetcar Community

Facilities District which was adopted by Los Angeles City Council. We recommend that hotel projects of at least 200 guest rooms (or adaptive re-use projects of at least 100 rooms) be eligible for similar incentives as previously defined herein for the ½ mile area surrounding the LACC.

For Hollywood, we recommend the following:

- Special Area Incentives Hollywood Zone – the lesser of:
  - 40 percent of total net new fiscal impact
  - 50 percent of TOT collections

For the East Valley/North Hollywood area we recommend that new, proposed hotel projects of at least 200 rooms be eligible for incentives similar to those identified for the community of Hollywood. For the purposes of defining the East Valley/North Hollywood area we recommend a one mile radius from the North Hollywood Metro Station located at the corner of Lankershim and Chandler boulevards and in proximity to the NoHo Arts District.

For LAX, we do not recommend incentives for new hotel room construction. Rather, we recommend an incentive program for renovations and the addition of amenities such as restaurants. This is discussed in the next section.

For these special areas, we recommend a maximum time period of 30 years of TOT incentives. However, for significant projects, defined as hotels of 500 or more rooms we recommend that the rebate period be extended if the incentive program calculated over the 30-year period is insufficient to fill the feasibility gap identified.

VI. HOTEL INCENTIVES FOR EXISTING HOTEL RENOVATION

The criteria for qualifying for, and level of incentive received, for a renovation of an existing hotel is difficult as each project would be unique. There are varying levels of dis-repair, age of facilities, branding, and other factors that play into the scope and scale of a renovation. We recommend that the criteria be more general, such as:

- An existing Hotel must represent one of the larger hotels or meet other attributes that position it as a center of its local hotel market. It must be a trigger or gateway project that will enhance a submarket and benefit the market and induce demand rather than cannibalize existing demand.
- The incentives for hotel renovations should also be based on net new tax revenues, so the renovation should be of sufficient scale and benefit to drive significant additional tax revenues to the City.
- The hotel should be subject to similar minimum criteria as new hotels, including minimum room block, minimum quality standard upon completion, community benefits, and acceptance of a labor agreement.
- The renovation should focus on further amenitizing the area.

The most important aspect of identifying the appropriate incentives available for hotel renovation is to quantify the impact of the rehabilitation and correlate this positive impact to the percentage of incentive the hotel owner should receive. We do not recommend that the percentage rebate be tied to any specific renovation dollar amount, instead that ownership should be rebated 50 percent of the Revenue Per Available Room Increase (RevPAR) above the market average attributable to the renovation. The following table presents an example of this calculation.

Incentive for Existing Hotel Renovation City of Los Angeles Example	
Description of the Existing Hotel	
Year Opened	1984
Guestrooms	100
2013 Performance	
Occupancy	65%
ADR	$150.00
RevPar	$97.50
Total Hotel RevPAR	$3,558,750
Description of the Renovated Hotel	
Existing Hotel Reopens in 2015	
2015 Performance	
Occupancy	70%
ADR	$175.00
RevPar	$122.50
Total Hotel RevPAR	$4,471,250
Subject Hotel RevPAR Increase Due to Renovation	$912,500
Calculated RevPar Increase	25.6%
2015 Los Angeles County Hotel Market	
RevPar Increase	8.1%
RevPar Increase Due to Renovation	17.5%
RevPAR Increase Available for Renovation	$784,303
50% Rebated to Ownership	$392,152

For LAX, we recommend a specific program be available to support hotel renovations and the addition of amenities such as restaurants. The scale of incentives should be a function of the net new tax revenues generated by the renovated facilities. We recommend:

- Special Area Incentives LAX Zone – Renovation and Addition of Amenities – the lesser of:
    - 25 percent of total net new fiscal impact
    - 50 percent of net new TOT collections
    - 15 year suggested maximum time period

CONCLUSION

We have presented recommended base criteria for new hotel and existing hotel renovations to receive hotel incentives. Furthermore, we have presented adjusted criteria for several key areas for additional hotel development. We thank you for the opportunity to complete this interesting assignment on your behalf, and would be pleased to hear from you if we could be of further assistance in the interpretation of our findings.

Sincerely,

PKF Consulting USA

Bruce Baltin
Senior Vice President

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This report is made with the following assumptions and limiting conditions:

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing this report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the value of the subject property. The value estimated in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a loss in value. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the projections were formulated assuming the hotel to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS
(continued)

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with proper written qualification and only in its entirety for its stated purpose.

Testimony in Court - Testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the American Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Dissemination of Material - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party for whom this report was prepared may distribute copies of this appraisal report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation, may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount, which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

Attachment B

CSL Review Letter

June 16, 2014

Mr. John Wickham
Office of the Chief Legislative Analyst
Room 255, City Hall
200 North Spring Street
Los Angeles, CA 90012

Dear Mr. Wickham:

We have conducted a peer review of the May 30, 2014 PKF Consulting report (Report) that analyzed hotel incentives in other municipalities and recommended criteria for establishing a hotel incentive program for the City of Los Angeles.

There can be significant ancillary economic benefits associated with hotel development. Given the relatively high tax rates on hotel sales, a sizable amount of tax revenue can be waived while still generating public sector revenue. A hotel is also an important component of vital mixed use commercial development, and can help support surrounding projects that provide public benefit. Importantly, sufficient hotel inventory is important in supporting the convention and tradeshow market in the city.

It is also important to consider that tax rebates can limit financial support for destination sales, marketing and facility development. As a general note, we therefore believe that it is critical that the public benefit component to any hotel incentive program be clearly defined. An incentive program should not necessarily be used to marginally advance private sector development decisions that will eventually be made regardless of incentives. Rather, a viable incentive program should provide a defined and significant public benefit that would not be realized without the incentive. Our comments and guidance presented herein takes this premise into consideration.

This review presents various specific comments on findings and recommendations contained in the Report, followed by directional guidance that should be considered as the hotel incentive discussion continues.

Observations

- The case studies summarized in the Report provide useful background, establishing the prevalence of public sector participation in influencing private sector development of hotel properties that provide some level of public benefit.

- The twelve month absorption of the 1,000 rooms developed as part of the JW Marriott and Ritz-Carlton project is very impressive, and highlights the strength of the downtown Los Angeles hotel market in 2010/2011.

- The Report makes a good case that the costs to develop hotels in the Los Angeles market are comparatively high, and that depressed hotel development can negatively impact the viability of surrounding office and other commercial projects.

- The Report recommends base incentive support for properties with at least 200 rooms. The incentive equates to 25 percent of total net new fiscal impacts, not to exceed 40 percent of TOT collections over a 20 year period. Special areas would be eligible for enhanced incentives as follows:
    - Within one-half mile of the LACC: 50 percent of total net new fiscal impact up to 100 percent of TOT for properties of 300 rooms or more over a 30 year period. This enhanced incentive would be available for properties of 200 rooms or more for the rest of the downtown area.
    - Hollywood: 40 percent of total net new fiscal impacts up to 50 percent of TOT collections over 30 years.
    - Various incentives are defined for renovation of existing properties in the LAX area.
    - Incentive payments are capped at a level equal to the defined funding gap, calculated based on an initial feasibility analysis.

- The Report states that net new "means that the existing use and tax streams are deducted from the proposed hotel projections in order to calculate the net new revenues to the City." I would suspect that the goal is to provide incentives solely on the net tax revenue after accounting for the share of room nights that would be drawn from existing surrounding properties. I assume that these calculations would be provided as part of the feasibility study required for any project seeking subsidies.

- The incentive program summarized above encompasses a significant geographic area, and a significant number and type of hotel properties. Modest sized select service to larger group properties would potentially be eligible for incentives.

- The Report sets a useful minimum quality standard at three diamond/three star properties. The Report also references a threshold that a new hotel receiving an incentive should generate 110 percent of RevPAR penetration of the local competitive set. Finally, the Report states that any hotel receiving incentives should "drive additional community benefits, such as providing conference space and other amenities in areas with insufficient hotel facilities." These are useful concepts, and adhering to them can help prevent subsidizing development of smaller properties and/or properties that simply draw business from existing area hotels while providing no ancillary benefit. The challenge will be specifically defining how a developer meets these thresholds.

- The Report calls for a room block agreement for any hotel within ten miles of the LACC. Typically, only large "big-box" hotels located very near a major convention center, and that are developed with significant public assistance, are operated under a room block agreement. The value of a room block agreement with a smaller property located five to ten miles of the LACC should be evaluated.

- The Report refers to a sunset date of five years from the date of adoption of this ordinance. This could help prevent an open-ended process of providing public incentives to projects that may not provide significant net new public benefit, or that would have been developed without any material public incentive.

- The report notes that the Hollywood market is underserved in terms of hotel product, and that the W Hollywood was fully absorbed within 12 months of opening. One could question why, given the strong hotel demand side, there is not more development absent public subsidies. The report notes the relatively high cost of hotel development, however a "deeper dive" into specifically why there aren't more hotel projects in that submarket may be informative when finalizing an incentive program.

- The Report calls for a funding gap analysis to prevent public subsidies that simply grow the developer ROI unnecessarily. This can ultimately be a subjective and onerous process involving third party reporting, questioning of assumptions, etc. However the use of such reports in protecting the public sector interests seems reasonable in concept.

<u>*Comments*</u>

- The base incentive timeframe of 20 years may be longer than needed, particularly when foregoing 100 percent of TOT for properties as small as 300 rooms. In some cases, the incentive period stretches 30 years and potentially longer. We also note that the city will occasionally incur police, fire and other municipal costs associated with any hotel development. Consideration should be given to capping the incentive period to approximately ten years. Note that the feasibility and "gap analysis" process will help determine the extent of subsidy needed.

- Incentivizing properties as small as 200 rooms near the convention center may be counterproductive. The goal for a convention planner is to house as many attendees in as few properties as possible. Markets such as Anaheim, San Diego and San Francisco provide several large (1,000+ room) properties proximate to their convention centers. Development of smaller properties near the LACC may weaken the economics for the eventual development of big box hotels. Consideration should be given to lifting the incentive threshold for hotels near the LACC to approximately 500 rooms.

- In developing a Room Block Agreement (RBA) approach, consider the following:
  - It may not be necessary to require a RBA for smaller properties located more than one to two miles of the LACC.
  - The RBA should have provisions that allow the Discover Los Angles (CVB) to offer a specified room rate to targeted events. This is a common provision among RBA's that stipulate the CVB can offer a particular rate for a selected number of dates per month for events booking several years in advance. The specific mechanics of the RBA can take several forms, and the City should seek to define these prior to offering incentives.

- A very basic example of such provisions is provided below.

  Event Block Rate – Hotel Manager (Manager) must respond to City's Marketing Agent (CVB) requests relative to a room block for LACC-related business and quote a room rate that is a minimum rate as initially negotiated between the City, the CVB and the Manager, plus an Inflator. Subsequent to year 1 of the Agreement, the Event Block Rate shall be the 1-year average Group rate achieved in the Competitive Set plus the Inflator.

  Maximum Event Night Ceiling – Manager is obligated to provide blocks of rooms to LACC customers for 18 Event Nights per month during the High Season and 14 Event Nights per month during the remainder of the calendar year for the period five years and beyond the current date. The Maximum Event Night Ceiling is reduced to 12 Event Nights per month (High Season) and 8 Event Nights per month (remainder of year) for the period 18 months to five years from current date. There are no Event Night Ceilings within an 18 month period from current date. Event Nights are defined as nights during which at least 50 percent of the peak room night block is achieved.

Existing Hotel Renovation – LAX Area

In 2005, CSL conducted research for conference space development in the LAX PBID. That report noted that the *"existing Gateway hotels can accommodate a large share of the corporate event segment with contiguous space needs of fewer than 13,000 square feet"*. The report also noted that should existing larger hotels in the area add to their convention and event space, a significant share of any unmet demand could be accommodated.

The PKF Report lays out incentives for exiting hotel renovation that would help to encourage development of such event space. The Report calls for net new tax revenue creation as a condition for providing incentives to existing properties. Consideration should be given to requiring a new demand generator (primarily event space) as a condition for receiving any public incentives.

* * * * * * *

Please don't hesitate to contact me with any questions or comments regarding the contents of this letter.

Sincerely,

John T. Kaatz

Attachment C

Hotel Development and Renovation Incentive Program

General Requirements

-- This policy shall remain in effect for a period of five years beginning upon adoption by the City Council (the Effective Period).

Council File ______________________

Date Adopted ______________________

Sunset Date ______________________

-- Applications submitted during the Effective Period will be fully considered and processed in due course. Applications will not expire with the sunset of this program.

-- Applications shall be submitted to the Economic and Workforce Development Department.

-- Applications must include the following:

- An application form
- An executed Memorandum of Understanding

-- Applicants must obtain and comply with all entitlement obligations.

-- Applicants must obtain a three-star or higher rating from an established, well-known hotel ranking organization.

-- All projects must include a Community Benefits Program, including:

- Project Labor Agreement
- Card Check Neutrality
- Living Wage Compliance
- Local Hiring Compliance
- Convention Center Room Block, as appropriate
- Streetscape Improvements
- Minimum LEED Silver Certification
- Other elements as determined

Citywide Incentive Area
The incentive would be available Citywide as follows:

A. Citywide Hotel Development Incentive Area (general incentive for all new hotel construction), to support the development of hotels to meet current market needs and address the lag in hotel development compared to growth in market demand (available anywhere in the City allowed by approved entitlements, including geographic enhanced incentive areas described in parts B through G of this policy).

   * Eligible to Three-star or higher hotels with 200 or more rooms

   * Incentive of the lesser of:
     – 25% of total net new fiscal impact
     – 40% of transient occupancy tax (TOT) collections

   * Up to 25-year time period from project opening to collect incentive

Geographic Enhanced Incentive Areas

B. LACC Incentive Area, to meet the specific need for at least 8,000 hotel rooms within the area bounded by Pico Boulevard, Alvarado Street, 7th Street, and Broadway (including both sides of each boundary street)

* Eligible to Three-star or higher hotels with 450 or more rooms

* Incentive of the lesser of:
  – 50% of total net new fiscal impact
  – 100% of TOT collections

* Up to 25-year time period from project opening to collect incentive

* This enhanced incentive area shall sunset once the zone has achieved a total of at least 8,000 rooms and at least one 1,000-room hotel before the five-year sunset of this Hotel Incentive Policy. Once this threshold has been achieved, the Downtown Enhanced Incentive Area policy elements will prevail.

* Community Benefits Program must include a Room Block Agreement to make at least 70% of hotel rooms available for Citywide Conventions booked at the LACC by the Los Angeles Tourism and Convention Board.

<u>Inventory of Existing Hotel Rooms in the LACC Incentive Area</u>
The following Table indicates hotels that currently operate, will soon operate, or are under construction in the LACC Incentive Area. The total rooms in these hotels apply toward the goal of 8,000 hotel rooms in the LACC Incentive Area.

Hotel Rooms in the LACC Incentive Area			
Hotel	**# of Rooms**	**Status**	**Rating**
Wilshire Grand	900	Under Construction	4 Star
JW Marriott	878	Existing	4 Star
Sheraton Downtown	485	Existing	3 Star
Mayfair Hotel	295	Existing	3 Star
Figueroa Hotel	285	Existing	3 Star
Stillwell Hotel	232	Existing	3 Star
Residence Inn	218	Open 2014	3 Star
Ace Hotel	182	Open Jan 2014	4 Star
Luxe Hotel City Center	180	Existing	4 Star
Courtyard Hotel	174	Open 2014	3 Star
Ritz Milner Hotel	137	Existing	3 Star
Ramada LA Convention Center	136	Existing	3 Star
The Ritz-Carlton LA	123	Existing	5 Star
Subtotal	**4,225**		
Metropolis	350	Proposed	3 Star
Renaissance	450	Proposed	
dtLA South Park	300	Proposed	
Subtotal	**1,100**		
Total	5,325		

Data available and projects confirmed as of May 2014.

C1. Downtown Enhanced Incentive Area, in the area bounded by the 101 Freeway, the Los Angeles River, the 10 Freeway, and the 110 Freeway, exclusive of the LACC Incentive Area:

* Eligible to new development with 200 rooms or more as three-star

* Incentive of the lesser of:
  – 40% of total net new fiscal impact
  – 50% of TOT collections

* Up to 25-year time period from project opening to collect incentive

C2. Downtown Adaptive Reuse Incentive Area, in the area co-terminus with the boundaries of the Streetcar Community Facilities District, inclusive of the LACC Enhanced Incentive Area:

* Eligible to adaptive reuse developments with 100 rooms

* Incentive of the lesser of:
  – 50% of total net new fiscal impact
  – 100% of TOT collections

* Up to 25-year time period from project opening to collect incentive

D. Hollywood Incentive Area, in the area bounded by Hollywood Boulevard, Western Avenue, Sunset Boulevard, and La Brea Avenue (including both sides of each boundary street)

* Eligible to Three-star or higher hotels with 200 rooms or more

* Incentive of the lesser of:
  – 40% of total net new fiscal impact
  – 50% of TOT collections

* Up to 25-year time period from project opening to collect incentive

E. LAX Hotel Renovation Incentive Area, defined by the boundaries of the Airport Hospitality Enhancement Zone (LAMC §104).

* Eligible to Three-star or higher hotels with 200 or more rooms

* Incentive of the lesser of:
  – 25% of total net new fiscal impact
  – 50% of TOT collections

* Up to 15-year time period to collect incentive

* Community Benefits program **<u>must</u>** include streetscape improvements and amenities such as restaurants to serve both hotel visitors and the general public.

F. East Valley Airport Incentive Area, in the area bounded by Clybourn Avenue, Kittridge Street, Tujunga Avenue, Saticoy Street, Vineland Avenue, Strathern Street, San Fernando Road, Cohasset Street, and the City Boundary (including both sides of each boundary street)

* Eligible to Three-star or higher hotels with 200 rooms or more

* Incentive of the lesser of:
  – 40% of total net new fiscal impact
  – 50% of TOT collections

* Up to 25-year time period from project opening to collect incentive

G. North Hollywood Incentive Area, in the area bounded by Hatteras Street, Vineland Avenue, Camarillo Street, Hollywood Freeway, and Colfax Avenue (including both sides of each boundary street)

* Eligible to Three-star or higher hotels with 200 rooms or more

* Incentive of the lesser of:
  – 40% of total net new fiscal impact
  – 50% of TOT collections

* Up to 25-year time period from project opening to collect incentive