# REPORT OF THE
# CHIEF LEGISLATIVE ANALYST

DATE: June 20, 2014

TO: Honorable Members of the Economic Development Committee

FROM: Gerry F. Miller
Chief Legislative Analyst

Assignment No: 13-08-0676

## ECONOMIC DEVELOPMENT INCENTIVE POLICY FOR HOTEL DEVELOPMENT


**SUMMARY**

Council approved Motion (Perry-Parks, CF# 09-2540), introduced on October 14, 2009, which recognizes the importance of hotels to the City's economy and instructed the Chief Legislative Analyst (CLA) to identify incentive programs that could support the development of additional hotels in the City.

On August 27, 2013, the Economic Development Committee considered a report by the CLA that provided details for such an incentive program. The Committee, following public testimony and substantial deliberation, directed the CLA to conduct additional research and evaluate revisions to the recommended policy.

This report updates data concerning the status of hotel development and hotel occupancy in the City, provides additional information related to the Committee's questions, and presents a revised policy to implement a general incentive for hotel development across the City and enhanced incentives in specified geographic areas.

Policy details are supported by a report from PKF Consulting USA, provided in Attachment A. Additional comment on the policy is provided in a letter from Convention, Sports, and Leisure as Attachment B. The final recommended hotel incentive policy is provided in Attachment C to this report.


**RECOMMENDATIONS**

That the City Council:

1. Approve a Hotel Incentive Program, as defined in Attachment C, to provide qualified hotel developers with site-specific revenue support under specified criteria, which will sunset five years from adoption of this policy;

2. Instruct the Economic and Workforce Development Department, with support from the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), and City Attorney as an oversight committee, to implement the Hotel Incentive Program;

3. Instruct the CLA to prepare and release a Request for Qualifications (RFQ) to establish a list of economic and financial analysts qualified to evaluate the development costs and economic impacts of hotel development for use in the Hotel Incentive Program and similar economic development projects;

4. Instruct the EWDD, CLA, and CAO and request the City Attorney to prepare standard documents for use in program implementation;

5. Instruct the Planning Department, EWDD, and CLA to report to Council and Mayor any entitlement provisions that constrain hotel development;

6. Instruct the Planning Department to conduct a study of small hotels to identify their appropriate locations throughout the City, compatibility with local land uses and zoning, and options to transition these properties, if appropriate, to other uses; and

7 Instruct the EWDD, with the CLA, CAO, and City Attorney, to report annually on the status of this program, including compliance with State Government Code Section 53083 Compliance reporting.

**BACKGROUND**

On August 27, 2013, the Economic Development Committee considered a report concerning the establishment of an incentive program to encourage the development of hotels. The proposed incentive program would provide limited assistance for the development of qualified hotel projects throughout, as well as enhanced incentives for qualified hotel projects in specified geographic areas as noted below.

The purpose of a Citywide incentive policy is to increase the number of hotel rooms available in the City and create certainty in the development process for hotels. Over the last 25 years, the City has experienced a .07% increase in hotel room development, compared to the national average of 1.8%. The Citywide policy also addresses the increase in tourism projected by the Los Angeles Tourism and Convention Board (LATCB) which seeks to increase tourist visits from 42.2 million in 2013 to more than 50 million annual visitors by 2020.

Further, enhanced incentive areas were proposed within the policy to achieve specific goals relative to the Los Angeles Convention Center (LACC), Downtown Los Angeles, adaptive reuse projects in Downtown, Los Angeles Airport, Hollywood, in North Hollywood, and City sections near the Burbank Airport. The LACC, for example, requires specific hotel products to meet the needs of convention clients. The policy is designed to provide enhanced incentives that address the business needs of this City-owned facility.

During consideration of the report, the Committee requested additional information and consideration of alternative incentives. This report provides information in response to the Committee's request and provides adjustments to the policy elements originally proposed.

This report is based upon research provided by PKF Consulting USA. Their technical report is provided as Attachment A. That report provides recommendations on various policy elements, as well as background research on incentives provided in other cities across the nation. Additional information was provided by the LATCB, LACC, and other specialists in the hotel and convention industry.

In addition, a peer review of the PKF technical report was obtained to ensure that all aspects of the hotel incentive policy were considered. Convention, Sports, and Leisure (CSL) provided a letter (Attachment B) that summarizes the PKF technical report and provides recommendations that supplement the recommended Hotel Incentive Policy.

In particular, CSL highlights the PKF analysis that depressed hotel development can "negatively impact the viability of surrounding office and other commercial projects."

**Updates to Hotel Demand Data**

Los Angeles has experienced a very small amount of new hotel openings over the past 25 years as compared to similar, well-known national destinations. According to data from Smith Travel Research and PKF Hospitality Research, since 1988 the annual increase in new hotel rooms has averaged only 0.7% in Los Angeles compared to a national average of 1.8%. Between 2003 and 2012 the number of hotels within Los Angeles County has actually declined, as older properties were razed or converted to other uses. Table 1 provides a comparison of hotel room growth in several cities across the nation.

**Table 1**
**Hotel Room Growth in U.S. and U.S. Convention Cities**

| | Total Room Increase, 1988-2013 | % Increase, 1988-2013 |
|---|---|---|
| Anaheim | 14,276 | 1.2% |
| Chicago | 37,944 | 1.7% |
| Los Angeles | 15,711 | 0.7% |
| New Orleans | 10,143 | 1.3% |
| New York | 37,396 | 1.8% |
| Orlando | 55,889 | 2.6% |
| San Diego | 20,538 | 1.7% |
| San Francisco | 7,692 | 0.7% |
| All U.S. | 1,768,439 | 1.8% |

Table 2 compares annual hotel room supply and occupancy between 2009, at the depth of the recession, and the hotel occupancy forecast for 2014. Weekly reports in 2013 indicated that City hotel markets have from time-to-time exceeded 90% occupancy.

**Table 2**
**Annual Room Supply by City of Los Angeles Submarket**

| Submarket | Annual Supply 2009 | Occupancy 2009 | Annual Supply 2014 Forecast | Occupancy 2014 Forecast |
|---|---|---|---|---|
| Downtown 1 (ADR >$110) | 1,980,490 | 60.8% | 2,141,942 | 75.5% |
| Downtown 2 (ADR <$110) | 491,290 | 69.1% | 465,375 | 69.3% |
| LAX | 3,897,105 | 74% | 3,949,300 | 86.3% |
| West Los Angeles Luxury | 560,640 | 56.6% | 573,050 | 76.7% |
| West los Angeles Deluxe | 1,441,385 | 65.4% | 1,599,065 | 81.3% |
| West Los Angeles First Class | 763,215 | 76.4% | 801,905 | 81.1% |
| Hollywood | 490,560 | 70.1% | 622,690 | 82.9% |
| East San Fernando Valley | 1,344,660 | 68.3% | 1,406,710 | 78.8% |
| West San Fernando Valley | 631,085 | 60.4% | 659,190 | 74.3% |

Average Daily Rate (ADR)

Source: PKF Consulting, *2014 Southern California Lodging Forecast*

An increase in the hotel stock adjacent to LACC is of particular interest to the City. Table 3 compares the hotel room configurations adjacent to convention destinations in California.

**Table 3**
**Convention Center-Adjacent Hotels Among Convention Cities**

| City | Hotels with 1,000 or More Rooms | Hotels with 500 to 999 Rooms | Hotels with 100 to 499 Rooms | Total Rooms |
|---|---|---|---|---|
| Los Angeles (Figure 1) | 0 | 2 | 11 | 4,225 |
| Anaheim (Figure 2) | 2 | 2 | 24 | 7,800 |
| San Diego (Figure 3) | 3 | 1 | 11 | 8,190 |
| San Francisco (Figure 4) | 4 | 5 | 43 | 19,113 |

Source: CSL International and the LATCB, 2012.

Figures 1 through 4 graphically show the location of the hotels in Table 3 in relation to their city's convention center. A ½ mile radius, a reasonable distance to walk from a hotel to a convention center, is also indicated on each figure. Data for these figures represents hotel status in 2012, and as a result Figure 1 does not show hotels that are expected to be built within the LACC Incentive Area. Figure 1 is limited to existing hotels and hotels under construction.

# Hotel Rooms Within ½ Mile of the Los Angeles Convention Center


– 0 hotels with more than 1,000 rooms.

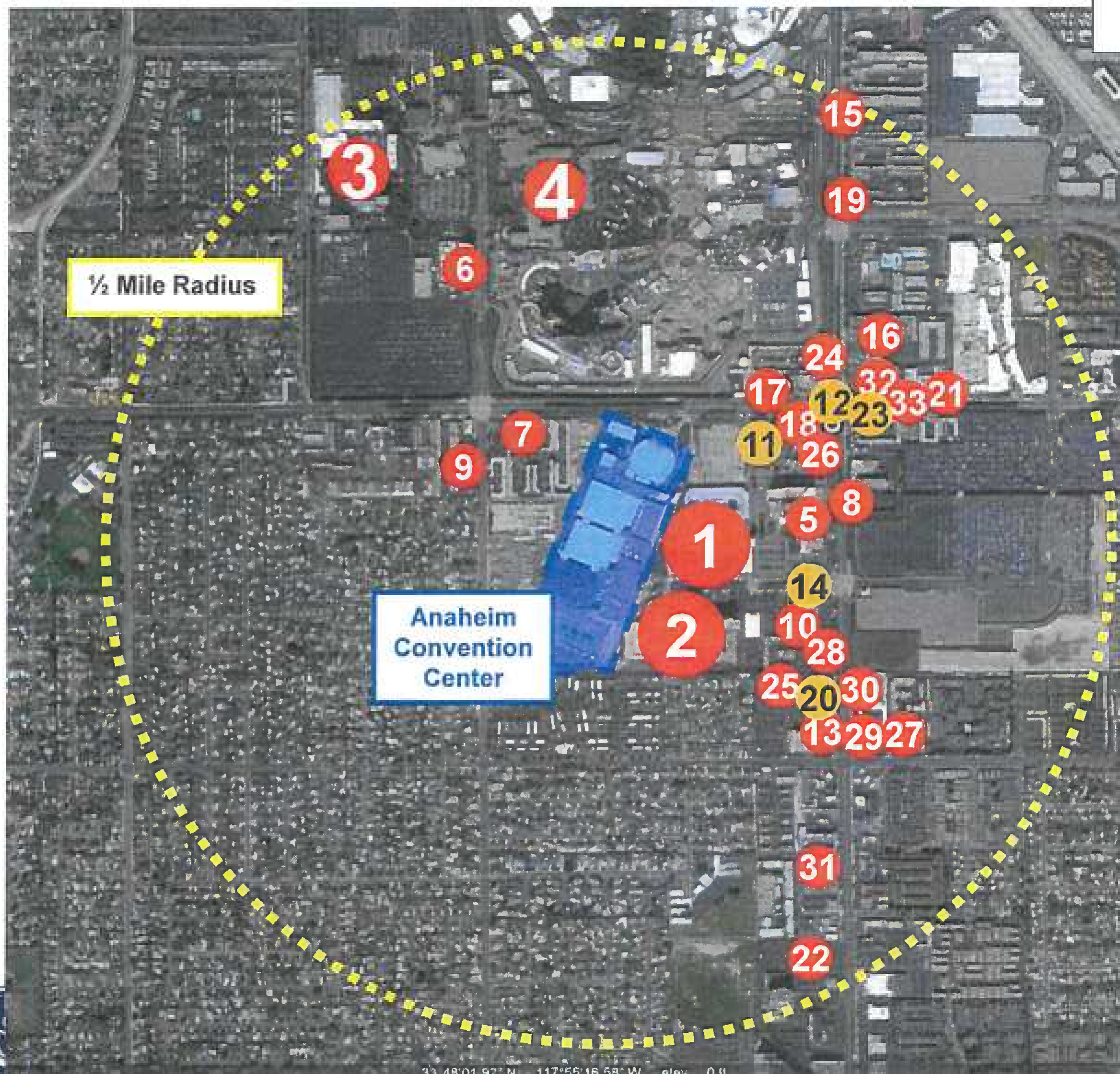
– 2 hotel with 500 to 999 rooms.

– 11 hotels with 100 to 499 rooms.

1 – Wilshire Grand (900 rooms) – *opening 03/2017*
2 – JW Marriott LA Live (878)
3 – Sheraton Downtown (485)
4 – Hotel Indigo (350) – *opening 02/2016*
5 – Mayfair Hotel (295)
6 – Figueroa Hotel (285)
7 – Stillwell Hotel (232)
8 – Ace Hotel (182)
9 – Residence Inn LA Live (219) –*opening 06/2014*
10 – Luxe Hotel City Center (180)
11 – Courtyard by Marriott LA Live (175) – *opening 06/2014*
12 – Ritz Milner Hotel (137)
13 – The Ritz-Carlton LA (123)

**Figure 1**

# Hotel Rooms Within ½ Mile of the Anaheim Convention Center

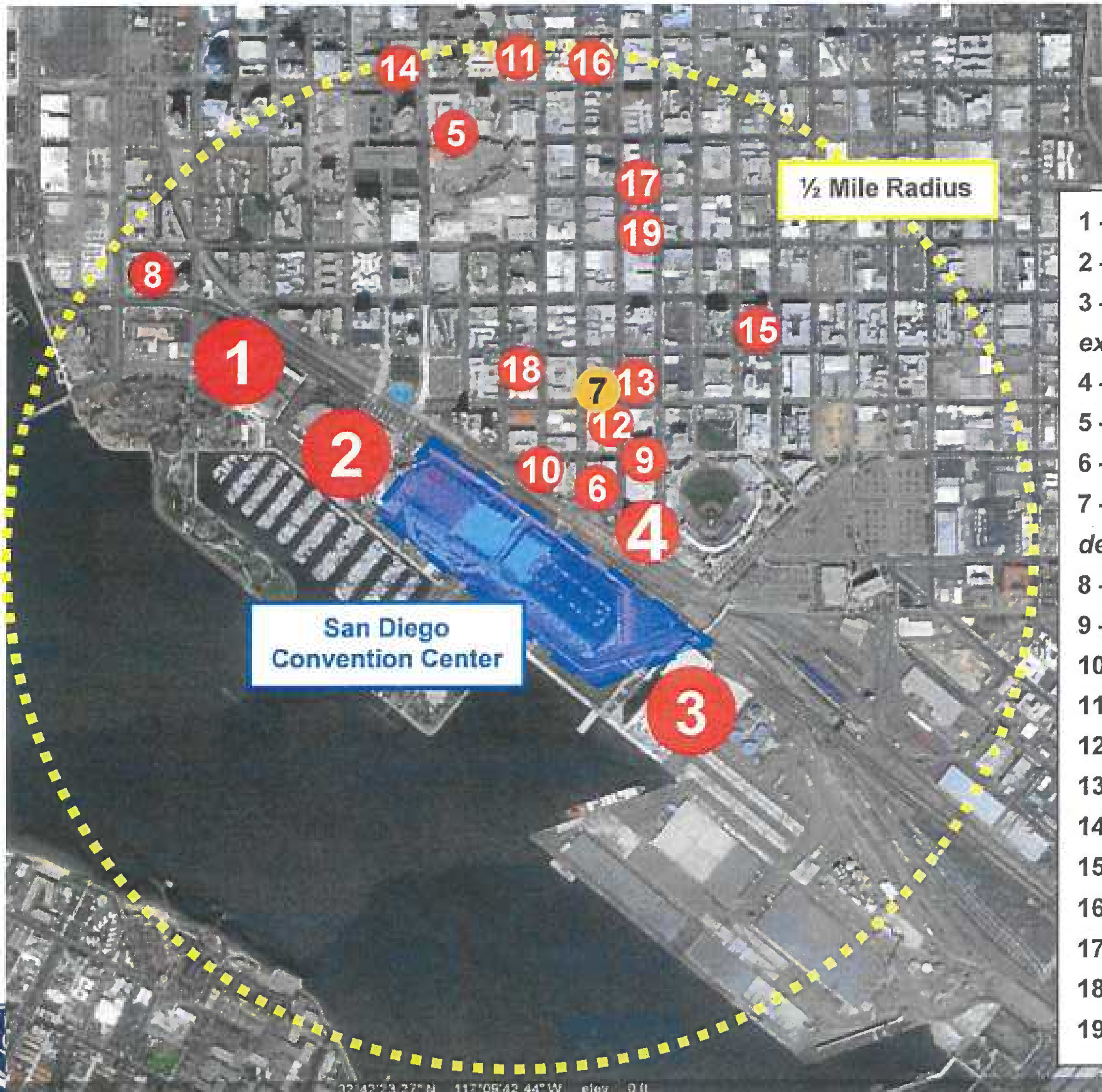



- 2 hotels with more than 1,000 rooms.
- 2 hotels with 500 to 999 rooms.
- 29 hotels with 100 to 499 rooms.

1 – Hilton Anaheim (1,572 rooms)
2 – Anaheim Marriott (1,030)
3 – Disneyland Hotel (988)
4 – Disney's Grand Californian (948)
5 – Sheraton Park Hotel (490)
6 – Disney's Paradise Pier (481)
7 – Anabella Hotel (360)
8 – Red Lion (310)
9 – Best Western PLUS Stovall's Inn (289)
10 – Clarion Hotel (284)
11 – Residence Inn (274) – *Opening 06/2015*
12 – Hyatt House (252) – *Opening 03/2015*
13 – DoubleTree Guest Suites (251)
14 – Homewood Suites (251) – *Opening 10/2015*
15 – Best Western PLUS Park Place Inn (199)
16 – Castle Inn and Suites (199)
17 – Desert Palms (189)
18 – Portofino Inn and Suites (188)
19 – Ramada Inn Maingate (185)
20 – Hyatt Place (178) – *Opening 07/2014*
21 – Super 8 (173)
22 – Hampton Inn and Suites (172)
23 – SpringHill Suites (172) – *Opening 07/2014*
24 – Candy Cane Inn (171)
25 – Courtyard by Marriott (153)
26 – Desert Inn and Suites (146)
27 – Dolphin's Cove Resort (136)
28 – Cortona Inn and Suites (127)
29 – Travelodge Anaheim Conv. Ctr. (119)
30 – Best Western Raffles Inn (108)
31 – Comfort Inn Maingate (108)
32 – Ramada Plaza Hotel (105)
33 – Holiday Inn Express (104)

**Figure 2**

# Hotel Rooms Within ½ Mile of the San Diego Convention Center




– 3 hotels with more than 1,000 rooms.

– 1 hotels with 500 to 999 rooms.

– 15 hotels with 100 to 499 rooms.

1 – Manchester Grand Hyatt (1,628 rooms)
2 – San Diego Marriott Convention Center (1,360)
3 – Hilton San Diego Bayfront (1,690) – *500 room expansion planned*
4 – Omni San Diego Hotel (511)
5 – Westin Gaslamp Quarter (450)
6 – Hard Rock Hotel (420)
7 – Marriott Renaissance Hotel (362) – *Under development*
8 – Embassy Suites San Diego Bay (337)
9 – San Diego Marriott Gaslamp (306)
10 – Hilton San Diego Gaslamp (283)
11 – US Grant (270)
12 – Residence Inn by Marriott Gaslamp (240)
13 – Hotel Solamar (235)
14 – The Sofia Hotel (211)
15 – Hotel Indigo (210)
16 – Hotel Palomar (184)
17 – Andaz San Diego (159)
18 – Horton Grand Hotel (132)
19 – Comfort Inn Gaslamp (103)

**Figure 3**

# Hotel Rooms Within ½ Mile of the Moscone Center (San Francisco)


- 4 hotels with more than 1,000 rooms.
- 5 hotels with 500 to 999 rooms.
- 42 hotels with 100 to 499 rooms.

1 – Hilton Union Square (1,908 rooms)
2 – Marriott Marquis (1,499)
3 – Westin St. Francis (1,196)
4 – Parc 55 Hotel (1,010)
5 – Westin Market Street (676)
6 – Grand Hyatt (660)
7 – Palace Hotel (552)
8 – InterContinental (550)
9 – Hotel Nikko (532)
10 – Sir Francis Drake Hotel (416)
11 – Downtown Courtyard by Marriott (405)
12 – W San Francisco (404)
13 – Marriott Union Square (400)
14 – Handlery Union Square Hotel (377)
15 – Omni San Francsico (362)
16 – Clift Hotel (354)
17 – JW Marriott Hotel (337)
18 – The Ritz-Carlton (336)
19 – Four Seasons Hotel (277)
20 – The St. Regis Hotel (260)
21 – Serrano Hotel (236)
22 – Hotel Monaco (201)
– 28 Hotels offering 100-199 rooms
(A) – *Former Renoir Hotel bought and undergoing renovations*

Figure 4

Table 4 lists the hotels currently operating or under construction within the proposed LACC Incentive Area. It also shows three additional hotels currently under consideration in the LACC Incentive Area: Metropolis would include 350 rooms; the Renaissance would include 450 rooms, and dtLA South Park would include 300 rooms. Additional hotel projects have been announced or discussed, though additional review is needed to determine their status.

**Table 4**
**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 | | |

The August 2013 CLA report on this matter indicated that an estimated 7,300 hotel rooms were needed to serve this area. These tables show that approximately 3,075 additional rooms would be required to meet the 7,300 room goal. If the additional hotels located in the LACC Enhanced Area that are mentioned in Table 5 are built, that would add 1,100 rooms to the hotel stock. As such, an additional 1,975 rooms would be needed to meet the goal of 7,300 rooms.

But the designated goal of 7,300 would still not generate enough hotels with a large block of rooms in one location or enough total rooms to remain competitive with other convention centers in California. The goal could be set to remain competitive with other convention cities in California, indicating a need for at least 8,000 rooms total as noted in Table 3. This would set the threshold need at approximately 2,700 additional rooms above the total rooms of 5,325 listed in Table 4.

Discussion below, in Question 5, considers the types of hotels or primary importance in the LACC Incentive Area.

Figures 5 through 7 compare the hotel rooms committed for three citywide conventions held at the LACC and the comparable ability for other cities to host a similar number of rooms for these conventions. These figures highlight the extreme displacement of convention attendees necessary to meet convention planner needs in Los Angeles.

## Committee Questions

**1. Why doesn't the market respond to the constraints in the current market? Why haven't they built new rooms and why aren't the room rates higher?**

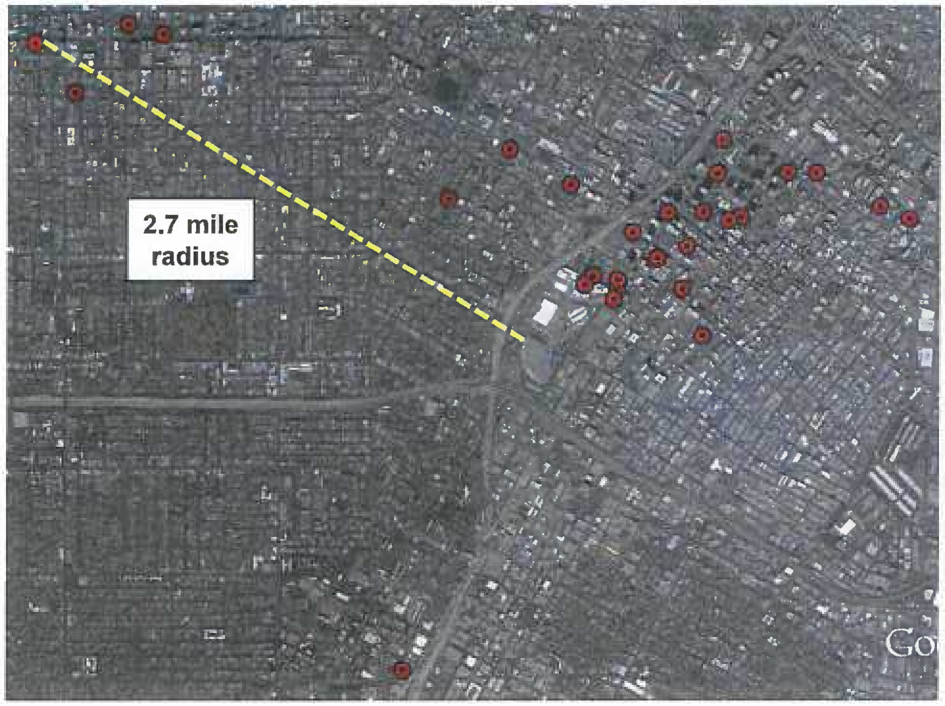
Average Daily Rates (ADR) for new hotel construction is the controlling factor in this matter. Most markets, including Los Angeles, are unable to support an ADR that allows new hotel construction to move forward. Although demand for hotel rooms is very high, ADR cannot move high enough to support construction without assistance. The economic analyses conducted by the City for the JW Marriott-Ritz Carlton, Grand Avenue, and Courtyard-Residence Inn projects all show that financial gaps exist in new hotel construction projects specifically because ADR cannot match construction costs. As such, the market is unable to provide hotel rooms without economic assistance.

**2. Why aren't our hotel room rates higher?**

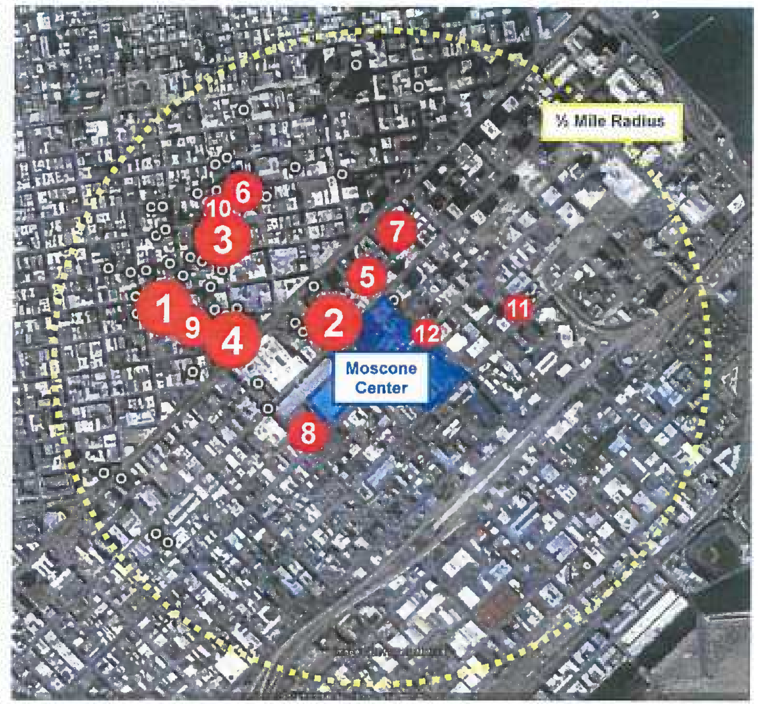
This relates again to ADR versus construction costs, which is the driving factor in hotel construction anywhere in the United States. Downtown Los Angeles' rates have increased significantly over the last several years and are healthy versus San Diego and Orange County markets, while still significantly below the metropolitan areas of San Francisco and New York. Markets where ADR are higher include ocean front and ski properties, or areas with a very high barrier to market entry (no vacant land, difficult entitlement/permit environment, etc). So San Francisco and New York, for example, are more built up with significant critical mass within the downtown core and are able to collect a much higher room rate. Los Angeles, on the other hand, has few rooms adjacent to the LACC and a spread-out downtown core that until recently did not have a significant residential base.

# 6,298 Committable Peak Rooms –

Los Angeles Convention Center
(30 Hotels Required)




Moscone Center (San Francisco)
(12 Hotels Required)

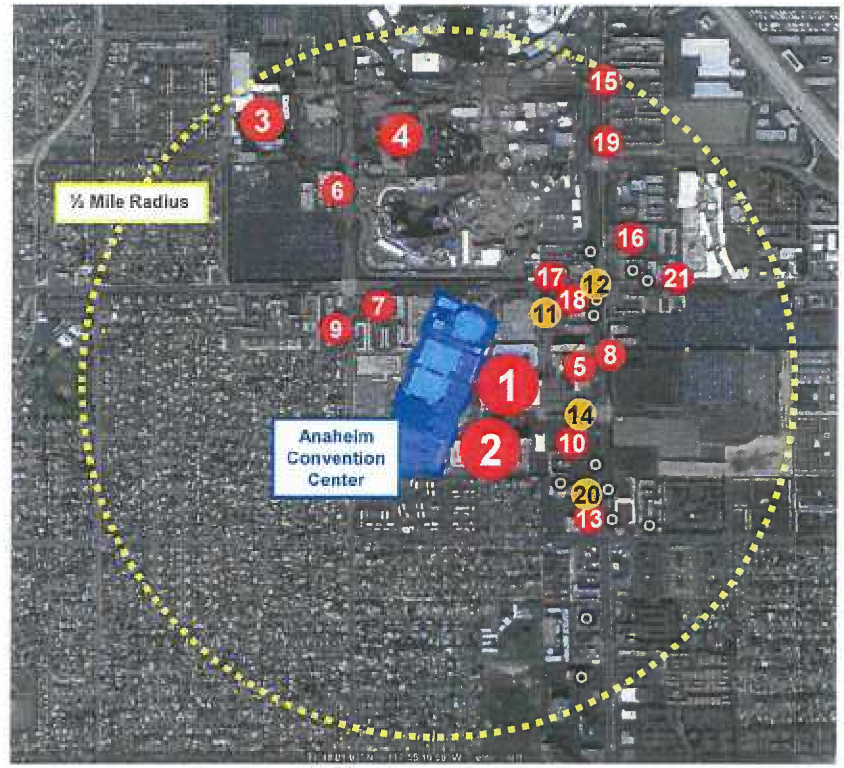



Note: The event generated a total of 26,562 room nights.

# 5,840 Committable Peak Rooms –

Los Angeles Convention Center
(26 Hotels Required)


Anaheim Convention Center
(21 Hotels Required)



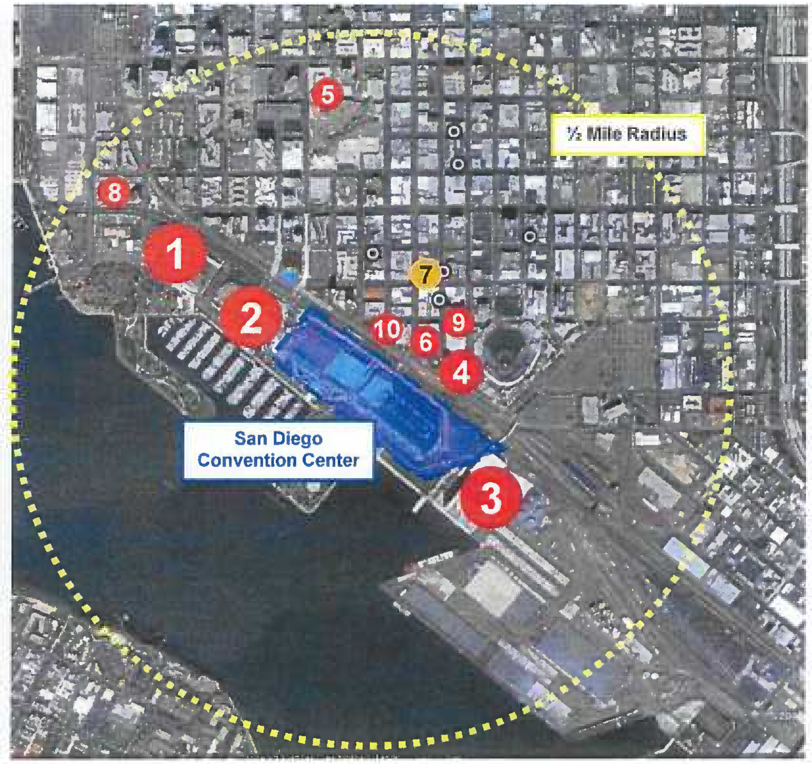

Note: The event generated a total of 17,362 room nights.

**Figure 6**

# 4,721 Committable Peak Rooms

Los Angeles Convention Center
(21 Hotels Required)


San Diego Convention Center
(10 Hotels Required)




Note: The event generated a total of 21,168 room nights.

**3. SUNSET DATE: Please define the end date for these incentives as five years from the date of their adoption.**

The policy now recommends a sunset of five years from the date of adoption by Council. At that time, Council can reconsider or modify the sunset and program components depending on success of the program.

**4. THREE-STAR: Please revise the references to three-star rating to indicate three stars on BOTH Triple-A and Mobile listings.**

The policy now references three-star ratings by established, well-known hotel ranking organizations.

**5. Review the Room Threshold for the Los Angeles Convention Center Area.**

The policy presented in August 2013 included a minimum threhold of 300 rooms in order to receive enhanced incentives in the LACC Area. The Committee questioned whether a lower room threshold, such as 200 rooms, would be more appropriate for the LACC Incentive Area. Several options were considered for this threshold, including both lower and higher room counts. The key policy point relates to what type of hotel the Council seeks to incentivize, larger hotels or smaller hotels.

The LACC is best served by a few larger hotels, rather than many smaller hotels. Convention and event meeting planners require the fewest number of hotels possible for their clients. The intent of a convention is to create interactions among their clients, which becomes increasingly difficult when their clients are distributed among many small hotels. Multiple hotels cause marketing materials for the convention to be more complicated and scheduling and reservations to be more cumbersome. In addition, conventions often involve supplemental meetings, receptions, and events at the convention hotels. Distributing such events across many hotels increases the complexity of convention planning. Finally, a large convention center, such as LACC, can support more than one convention at a time. Two large concurrent conventions would require more than one convention hotel.

As shown in Table 3 above, the City does not have any hotels with 1,000 or more rooms adjacent to the LACC, while Anaheim, San Diego, and San Francisco each of two or more 1,000 room hotels adjacent to their facility. The opportunity to build a large hotel with 1,000 or more rooms is rapidly dwindling as the South Park district of Downtown is built out.

Multiple smaller hotels provides a wider range of products that serve the tourism market, including convention visitors. Each brand provides a unique approach to lodging services at a range of price points. Providing incentives to smaller hotels allows visitors to find a product that suits their needs and style at a desired price point.

In an effort to determine a recommended incentive target, several specialists in hotel development incentives were consulted. Several suggested a lower threshold to generate more hotel construction. Others suggested that a higher threshold would ensure that the City's program delivers hotels that meet the LACC needs. In other words, setting a lower threshold would generate more hotel construction but the result could be the construction of hotels that do not provide the full suite of services needed for conventions. As noted in the CSL letter, a large number of small hotels could "weaken" the market for a large convention center hotel.

Another key issue recommends a higher room count in the LACC Incentive Area. When hotels outside the walking zone are included in convention headquarters, the Los Angeles Convention and Tourism Board (LATCB) offers supplemental shuttle services to bridge the distance. This creates a cost borne by the LATCB as an incentive to attract the convention, reducing the amount of funding available for other tourism and marketing programs. It also adds congestion to local roads.

The policy recommendation presented here provides two solutions. First, the LACC Incentive Area provides an enhanced incentive for hotels with 450 or more rooms. This establishes a program priority to seek full-service, large hotels to meet convention business needs. Second, the policy recommends an incentive in the remaining portion of Downtown (exclusive of the LACC Incentive Area) for new hotel construction with 200 or more rooms and a Downtown Adaptive Reuse Incentive Area (overlayed with the LACC Incentive Area) for adaptive reuse projects with 100 rooms or more located within the Streetcar Community Facilities District.

This dual approach provides an incentive for large hotel construction to meet LACC and meeting planner needs, as well as an incentive that focuses on tourists and preservation and reuse of the historic core.

**6. Longer period of rebate for large hotels to incentivize large hotels.**

PKF recommends no more than a 30-year maximum incentive period. It should be noted that the length of the incentive period is a secondary factor in the analysis. The main question is whether a gap exists in project financing that cannot be closed and that City support is required to ensure that the project receives enough financing to be completed. The length of time required to fill that gap varies from project to project. A longer time period may not be necessary to fill the gaps that might exist. A longer period may, in fact, indicate project infeasibility or market weakness. The result of setting a period longer than 30 years could be to obligate the City to participate in a project that doesn't work.

The hotel revenue participation agreements previously approved by the City have a maximum of 25 years. This program proposal maintains that policy position.

**7. Please define specific streets for the Downtown zone, and ensure the boundaries encompass the boundaries used for the Streetcar Community Facilities District which was adopted by Council.**

Each of the incentive areas recommended in this policy are now defined by specific streets, as described below and in Attachment C. It should be clear that the intent of the policy is that both sides of the designated boundary streets are included in the incentive areas.

The Streetcar Community Facilities District serves as the boundary for the recommended Downtown Adaptive Reuse Incentive Area.

**8. Can we include the East Valley? What would the boundary be?**

Consideration of hotel demand in the East Valley suggests that two incentive zones may be appropriate. The first would specifically serve the Bob Hope Airport, while the other would serve the North Hollywood area. Proposed renovations at the Bob Hope Airport are anticipated to result in new development opportunities and hotel demands in the surrounding area. An incentive zone in this area would encourage hotel development within the City.

The North Hollywood Incentive Area now proposed would seek to enhance development in the former North Hollywood Redevelopment Area. Its location at the terminus of the Metro Red and Orange lines, and proximity to Universal Studios, commercial activities in the eastern San Fernando Valley, and Bob Hope Airport, ensure that there are both linkages to the local and regional services and uses.

**9. Can the incentive be expanded to Pico Union?**

Review of the commercial zones and transit stations west of the 110 Freeway suggest that areas may be appropriate to include in the LACC Incentive Area. As such, the boundaries for that area include that portion of the Pico Union community bounded by the Pasadena Freeway, Pico Boulevard, Alvarado Street, and Seventh Street. A portion of this area is within walking distance of the LACC, a prime consideration for the location of convention center hotels, while the remaining area is served by a Metro Subway Station at 7$^{th}$ and Alvarado that provides connections to LACC.

**10. How do we structure a renovation tool that works?**

The proposal for the LAX Incentive Area in this policy is anticipated to be an effective renovation tool. The expectation is that the policy will be tested through the implementation of this policy. If effective, the policy could be applied Citywide or other designated enhancement areas.

**11. INCLUDE ADAPTIVE REUSE DOWNTOWN- same incentives (percentages) to be available to adaptive reuse hotels in Downtown providing 100 rooms or more.**

See the response to Question 5 concerning the Streetcar Community Facilities District and the proposed Downtown Adaptive Reuse Incentive Area.

**12. Are there land use actions that would be sufficient to incentivize construction? Do we need the funding component?**

The City Planning Department has recently clarified that hotels are not required to obtain a conditional use permit in the CR, C1, C1.5, C2, C4, or C5 Zones in the Central City Community Plan Area or areas designated on an adopted Community Plan as a Regional Center or Regional Commercial area. Uncertainty on this question complicated the application process for hotel entitlements. This recent clarification is the type of land use action that would help incentivize additional hotel construction.

Other such actions could be helpful in this area, particularly with regard to adaptive reuse and renovation projects. As there is little experience with these types of projects, City staff should be directed to identify issues as they arise and notify Council and the Mayor immediately of the matter.

**13. There is a prohibition on development in industrial zones. Can that be loosened?**

Such a development prohibition is established ordinance by the City Council and Mayor. The Downtown Community Plan is currently under review and it may be appropriate to consider changes to such prohibitions under that public review process. It should be noted that the City Council previously acted to protect industrial land uses in Downtown. Action to revise this policy would require an ordinance change. The City has very limited industrial land resources, which historically have registered the lowest vacancy rates of any land use in the City.

**14. How do we value community benefits? Are we using City resources to pay for those benefits?**

Many of the components included in a Community Benefits Package do not have an explicit value, such as a local hiring requirement or a room block agreement. Other components may have a measurable cost in the budget of a project, such as streetscape improvements that exceed code requirements, but the benefit of those improvements to the community exceeds the cost incurred. Most community benefits have an intangible element and it is a negotiation between the Developer and the City to agree as to whether the value the City receives from those elements equals the value of the incentive received by the Developer.

Another consideration is that participation in this hotel incentive program provides a degree of community benefit. Hotels constructed under this program would not have been built under any other circumstances, providing short-term and long-term jobs, as well as new local and state tax revenues that would not have been generated otherwise.

**15. Should the Community Benefit program require LEED Silver as a minimum development standard?**

All new construction in the City is required to comply with the Los Angeles Green Building Ordinance (LAGBC). The LAGBC is based on the 2013 California Green Building Standards

Code, commonly known as "CALGreen" that was developed and mandated by the State to attain consistency among the various jurisdictions within the State; reduce a building's energy and water use; reduce waste; and reduce the carbon footprint. In addition, previous hotel revenue participation agreements have included a requirement that the project meet certain Leadership in Energy and Environmental Design (LEED) certification criteria. It would be appropriate to incorporate a similar requirement in any Community Benefit Program associated with this Hotel Incentive Policy.

**16. LABOR: Please recommend standardized agreements for labor and wages for hotels utilizing these incentives in a way that allows the incentives to remain powerful, but will also provide good jobs and benefits to workers.**

Past hotel revenue participation agreements require that the developer negotiate appropriate agreements with labor organizations to ensure that fair wages are paid for construction jobs, as well as permanent jobs within the hotel. The City does not have the expertise to draft such standardized agreements, nor should the City insert itself into the relationship between hotel developers, hotel operators, and labor. Further, changing dynamics in the labor market over time can be more flexibly addressed without strict City intervention.

The Hotel Incentive Program, though, should include as part of the Community Benefits Program adequate requirements to ensure that the developer, hotel operator, and labor have agreed to terms that provide for project labor agreements, card check neutrality, and compliance with local hiring and living wage requirements.

**17. Can an Incentive Policy address solutions for "No-Tell" Motels?**

Some motels attract business that is not directed toward standard convention or tourist interests. Historically, small motels were constructed along major roads entering the City, such as Colorado Boulevard (Route 66) and San Fernando Road. These small roadside motels met the needs of long distance car travelers looking for an overnight stop.

These motels do not typically have the larger number of rooms found in the projects that would participate in this incentive policy and do not have the parcel size to allow for a significant increase in size. Further, many are now located among land uses that may not be ideally compatible, such as the mix of motels and industrial uses along San Fernando Road.

Solutions to the issues associated with these small motels range from increased enforcement to resolve illegal activities such as prostitution and review in the Community Plan process to ensure that land uses are compatible with the local vision for that community. This report recommends that the Planning Department conduct a study of small hotels in the City to determine their location, evaluate their compatibility with local land uses, and recommend ways to transition some of these properties toward other, more appropriate uses.

**Proposed Hotel Development and Renovation Incentive Program**

The proposed Hotel Development and Renovation Incentive Program recommended for Council approval is included in Attachment . Several modifications have been made to the policy based on the additional research conducted since August 2013, as noted above. The following provides a summary and notes key changes or clarifications which are included in Attachment C.

***General Requirements***

Applicants would be required to deposit funds with the City to cover expenses associated with the fiscal and economic analyses needed to evaluate and establish the incentive amount. The application and the deposit would be reviewed by Council prior to staff commencing application evaluation. Once receipt of funds is approved by Council and an economic consultant is selected, the developer would be required to submit their pro forma to facilitate the necessary economic and fiscal viability studies.

In order to receive these incentives as outlined in this policy, all projects would be required to include a community benefit package that includes a project labor agreement for temporary and permanent jobs and comply with CEQA and other entitlement approvals. Hotels within the LACC Incentive Area would also be required to approve a Room Block agreement to make available 70% of their rooms for citywide conventions. Hotels receiving the LAX renovation incentive would be required to include pedestrian- and retail-oriented improvements.

***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).

***Geographic Enhanced Incentive Areas***

Enhanced incentive support would be available in six geographic areas as described below. A hotel proposal that does not meet the room requirements for an enhanced area may still be eligible for the Citywide Hotel Development Incentive. For example, a project with 300 rooms in the LACC Incentive Area would not qualify for the enhanced incentives in that area, but could qualify for the Citywide incentive. The enhanced geographic incentives are:

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

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:

C2. Downtown Adaptive Reuse Incentive Area, co-terminus with the boundaries of the Streetcar Community Facilities District

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)

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

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 (including both sides of each boundary street), and the City Boundary

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)

PKF recommends that the Downtown Enhanced Incentive Area provide incentives of 50% of net new revenue or 100% of TOT, whichever is lower, for hotels with 200 rooms or more. The CSL letter, however, cautions that too many small hotels could have a negative impact on the development of larger hotels in the LACC Incentive Area. This report recommends a policy that provides an incentive of 40% of net new revenue or 50% of TOT, whichever is lower, to ensure that the incentive policy provides modest support for new hotel construction throughout Downtown, but provides some controls over the number of projects that are supported. This is consistent with the Hollywood and East San Fernando Valley incentive areas.

**Application Process**

The application process would largely follow the steps currently in place for the consideration of revenue participation requests, with some streamlining that results from approval of this policy. The following process would ensure that the Council reviews any revenue participation application upon submittal and again approves the final revenue participation terms.

First, developers interested in receiving a revenue participation would submit an application for City consideration, including an executed Memorandum of Understanding (MOU) that outlines the terms and responsibilities of the revenue participation agreement. This application and MOU would be reviewed to determine which incentive the project would be eligible to receive and whether the application and MOU are complete.

Upon determination that all is in order, the application package would be submitted to Council for review and approval of authority to accept funding to conduct the necessary fiscal and economic studies.

Once approved by Council, the City and the developer would initiate the necessary studies to determine fiscal viability of the project, whether the development has a gap in financing, and what kind of economic impact would be created by the project. Such analysis would determine whether the project would qualify for revenue participation assistance and how much would be available.

Once the economic and fiscal evaluation has been completed and a determination made that the project would be eligible for a revenue participation, the City and developer would prepare a revenue participation agreement for consideration by Council. The final revenue participation agreement would be submitted to Council for final consideration and approval.

**Implementation of this Program**

One of the significant time factors involved with the analysis of applications for revenue participation is the hiring of independent fiscal and economic advisors to review the construction costs and estimated site-specific revenues of proposed projects. To facilitate this process, it is recommended that the City establish a list of consultants qualified to conduct such reviews. A Request for Qualifications (RFQ) should be released in an effort to identify and establish a list of firms qualified to complete this type of work. Such a list would allow the City to more quickly complete the required fiscal and economic analyses necessary to support this incentive program. It is recommended that this list of qualified consultants be available for any type of economic development proposal that requires analysis of fiscal viability and net economic impact on City revenues.

Another way to streamline the application process is to develop standard MOU and revenue participation agreements. The operative applications, documents, and contracts would be available for developers to review prior to application submission. This would facilitate understanding of the terms, available incentives, and program requirements as a further means to streamline the incentive program.

## FISCAL IMPACT

There is no impact to the General Fund associated with this action. Implementation of such an incentive program is anticipated to generate net-new sales tax, business tax, utility tax, and other tax revenues. The fiscal impact of each project participating in the incentive program would be reported as part of the approval process.

John Wickham
Analyst