File No. 13-1694-S1

ECONOMIC DEVELOPMENT COMMITTEE REPORT relative to various agreements associated with the Grand Avenue Hotel Project.

Recommendations for Council action:

1. AUTHORIZE the Mayor to execute the Grand Avenue Hotel Development Incentive Agreement (HDIA), attached to the Council file, between the City of Los Angeles and CORE/Related Grand Avenue Owner LLC to provide as a conditional obligation financial support up to $66.6 million net present value.

2. APPROVE the Government Code Section 53083 report, attached to the Council file, for the Grand Avenue HDIA; and INSTRUCT the Economic Development and Workforce Development Department, with the assistance of the City Administrative Officer, Chief Legislative Analyst (CLA), Office of Finance, and other departments as necessary to provide periodic reporting on this project as required under Section 53083 of the Government Code.

3. AUTHORIZE the Mayor to:

    a. Approve and consent to the Fifth Amendment to the Development and Disposition Agreement (Grand Avenue), attached to the Council file.

    b. Execute the Termination of Incentive Rent Agreement, attached to the Council file.

    c. Execute the Community Benefits Monitoring Agreement, attached to the Council file.

4. AUTHORIZE the Bureau of Contract Administration to negotiate and execute a Memorandum of Understanding (MOU) for the Grand Avenue Project with CORE/Related Grand Ave Owner, LLC to monitor the Grand Avenue Project Community Benefits Program.

5. AUTHORIZE the CLA to submit escrow instructions concerning all City documents related to the Grand Avenue Project.

6. REQUEST the City Attorney to prepare and present an Ordinance to establish a Special Fund for the purpose of receiving funds and making payments to meet the conditional and administrative obligations associated with the Grand Avenue HDIA, to be known as the Grand Avenue Hotel Project Trust Fund.

Fiscal Impact Statement: The CLA reports that approval of the HDIA and the other associated documents will have a positive impact on the City's General Fund. The HDIA is expected to result in the development of a 305-room hotel that would generate $396.9 million ($133.3 million npv) in new City tax revenues 25 years after construction. Hotel incentive assistance to the Developer would range from $49.9 million npv to $59.3 million npv and the City's General Fund would receive $66.4 million npv to $75.8 million npv. In addition, the Developer will receive an additional amount up to $7.6 million npv in Parking Incentive over the first 10 years of the project, but will be required to reimburse those funds beginning 10 years after project opening. Further, the City will receive $23.5 million ($6.1 npv) in incentive rent payments over a 25 year period.

Community Impact Statement: None submitted.

Summary:

On December 13, 2016, your Committee considered a November 29, 2016 Communication from the Los Angeles Grand Avenue Authority and December 9, 2016 CLA report relative to various agreements associated with the Grand Avenue Hotel Project. According to the CLA, the Grand Avenue Parcel Q development is a mixed-use, urban in-fill development consisting of hotel, residential, and amenity retail uses. A feasibility analysis of the Project completed by the City determined that a gap existed in the hotel component of the Project financing. The analysis also determined that City revenues could be generated by the Project sufficient for the City to provide financial assistance in compliance with policies related to economic development support.

Specifically, the analysis determined that the hotel component of the Project has a gap of $117.4 million. The fiscal impact of the project shows that it would generate an estimated $396.6 million ($133 .3 million npv) in new City revenues. Since Council approved the MOU and instructed staff to negotiate a HDIA for the Project, the Grand Avenue Joint Powers Authority (JPA) has agreed to provide $1 million to support the hotel development. This payment from the JPA meets the match requirements established by the City with regard to project financial support, resulting in an increase in the base amount of the City hotel incentive support from $49.9 million npv to $55.1 million npv.

In early 2015, the Developer submitted a refined Project description for the JPA's consideration, including a change in the hotel brand. These Project refinements altered the economics of the Project, resulting in a need for a revised economic and fiscal analysis. The Project now includes the following:

a. 305-key, four-star Equinox-branded hotel, fitness center and associated uses.

b. 301 mixed-income apartments

c. 128 for-sale condominiums

d. 215,000 gross square feet of restaurant and retail space

e. 1,350 parking spaces

The City retained RSG, Inc. (RSG) to conduct a fiscal and economic review of the project to identify any potential gap in project financing and eligibility for incentive assistance from the City. This new mix of uses increased the number of ownership housing units, slightly increased the amount of retail space, and entirely eliminated the commercial space. The Developer also proposed to change the retail program from high-end retailers to lifestyle retailers. In addition, the SLS hotel is replaced with the Equinox hotel, a new product under development by the Equinox fitness and lifestyle brand. RSG estimated that Parcel Q will generate net new revenues of approximately $396.9 million ($133.3 million npv) cumulatively for the City and County.

The City portion of those net newrevenues is 84 percent and the County's share is 16 percent. These proportions, applied to the total TOT generated by Parcel Q, would result in the City providing financial support of $49.9 million npv. If the County provides support up to 16 percent, or $1.8 million in incentive support, the City would provide additional support matching the County's contribution, up to $59.3 million npv. The original Grand Avenue agreement included a provision to provide Parking Occupancy Tax(POT) revenues collected in the first ten years, with a provision for those revenues to be repaid from Project parking revenues once the Project received the full amount of POT designated. The MOU retains this element, providing a maximum of $12.7 million ($7.6 million npv) within thefirst ten years of the Project. These funds would then be repaid fully to the City from Project parking revenues in subsequent years.

After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the recommendations contained in the December 9, 2016 CLA report and detailed in the above recommendations. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ECONOMIC DEVELOPMENT COMMITTEE

MEMBER	VOTE
PRICE:	YES
CEDILLO:	ABSENT
HARRIS-DAWSON:	YES
KREKORIAN:	YES
O'FARRELL:	YES

ARL
12/13/16

-NOT OFFICIAL UNTIL COUNCIL ACTS-