

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: December 5, 2014

TO: Honorable Members of the City Council

FROM: Sharon M. Tso *SMT*
Chief Legislative Analyst

Assignment No: 14-12-0852

METROPOLIS HOTEL DEVELOPMENT INCENTIVE AGREEMENT

SUMMARY

Attached for consideration is a Hotel Development Incentive Agreement (HDIA) prepared in accordance with a Memorandum of Understanding (MOU) approved by Council July 2, 2014 (CF# 14-0029). This HDIA provides financial support for development of a 350-room hotel and associated facilities within the first phase of the Metropolis project in Downtown Los Angeles.

Metropolis is a mixed-use, urban in-fill development consisting of hotel, residential, office and amenity retail uses (Project). 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 provide financial assistance in compliance with policies related to economic development support.

Analysis determined that the hotel component of the Project has a gap of \$70.4 million. If the Developer chose to construct a residential tower instead, the Project would have a feasibility gap of \$56.9 million. Consistent with City policy, the difference between hotel construction and residential tower construction, \$13.5 million, is the gap associated with construction of the hotel. The fiscal impact of the project on City revenues is estimated at \$156.7 million (\$52.5 million net present value).

This report transmits the HDIA, which is consistent with most terms in the MOU approved by Council. The exception is that the HDIA provides financial support of \$13.5 million, consistent with the existing hotel incentive policy. The MOU provided a subvention of \$13.1 million based on a proposed hotel incentive program that was under consideration by the Council, but not adopted. The HDIA subvention, then is consistent with current policy, rather than a future policy that has not been adopted. This report also provides analysis of job creation and financial subsidy in compliance with Government Code Section 53083.

Finally, the City Administrative Officer (CAO) seeks authority to release a Request for Proposals (RFP) for trustee services to assist with the administration of subvention payments associated with the Project and other economic development projects that involve similar subvention payments.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the Mayor to execute the Metropolis Hotel Development Incentive Agreement (HDIA, Attachment A) between the City of Los Angeles and Greenland LA Metropolis Hotel Development LLC concerning terms to provide, as a conditional obligation, financial support of \$13.5 million net present value;
2. Approve the Section 53083 report (Attachment B) for the Metropolis Hotel Development Incentive Agreement and instruct the Economic Development and Workforce Development Department to provide annual reporting on this project as required under Section 53083 of the Government Code;
3. 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 obligation associated with the Metropolis HDIA, to be known as the "Metropolis Hotel Project Trust Fund"; and
4. Authorize the City Administrative Officer to issue a Request for Proposals, negotiate and execute a contract for trustee services for projects subject to Subvention Agreements.

FISCAL IMPACT STATEMENT

Approval of this HDIA will have a positive impact on the City's General Fund. This agreement is expected to result in the development of a 350-room hotel and the subsequent generation of \$156.7 million in new City tax revenues over 25 years, of which approximately \$18.7 million (\$13.5 million net present value) will reimburse the Developer and the remaining \$138.0 million will accrue to the City's General Fund.

BACKGROUND

Metropolis is a mixed-use, urban in-fill development consisting of hotel, residential, office and amenity retail uses. This 6.3 acre site is bound by the 110 Freeway, Francisco Street, Eighth Street and Ninth Street. The Project was initially approved by the Community Redevelopment Agency of Los Angeles (CRA/LA) in 1994. Various versions of the project have been proposed and approved by the CRA/LA, but circumstances over the last 20 years have prevented initiation of any construction.

The property was acquired by Greenland Group, a Shanghai-based developer of residential, hotel, and other urban projects, specializing in high-rise developments. Greenland LA Metropolis Hotel Development LLC is the Developer of record on this Project.

In January 2014, Motion (Huizar-Englander, CF# 14-0029) was introduced to initiate a feasibility study for the Project in response to a request from the Developer to provide financial assistance in support of the hotel. The Developer reported that a finance gap exists in the hotel finance plan and that financial assistance was necessary to help fill the gap. Motion authorized the Chief

Legislative Analyst (CLA) to accept funds to pay for the necessary feasibility study and instructed the CLA to retain a consultant to prepare that study.

Analysis determined that the hotel component of the Project has a gap of \$70.4 million. If the Developer chose to construct a residential tower instead, the Project would have a feasibility gap of \$56.9 million. Consistent with City policy, the difference between hotel construction and residential tower construction, \$13.5 million, is the gap associated with construction of the hotel. The fiscal impact of the project on City revenues is estimated at \$156.7 million (\$52.5 million net present value). The Hotel component of the project alone is estimated to generate \$135.6 million (\$44.6 million net present value).

Based on this analysis, the Project qualifies for financial assistance from the City. A Memorandum of Understanding (MOU) was drafted and presented for Council consideration that established the terms for a subvention agreement to provide assistance. That MOU provided a subvention of \$13.1 million based on a proposed hotel incentive program that was under consideration by the Council, rather than \$13.5 million that would be provided under the existing hotel incentive policy.

Hotel Development Incentive Agreement

The Council approved the MOU on July 2, 2014, and instructed the CLA to negotiate a final subvention agreement to provide financial assistance. Attachment A provides the final HDIA developed following substantial negotiations between the City and the Developer. The HDIA conforms to the approved MOU in all terms, with one key exception.

The City's policy with regard to financial assistance for economic development projects has been to provide up to 50% of net new revenue generated by the project. As determined in the Keyser Marston study, the maximum amount of assistance that could be provided to this project, consistent with City policy, is \$13.5 million.

But concurrent with consideration of the Metropolis subvention, the City has been considering a new hotel incentive policy. The draft policy under consideration at the time the Council considered providing support for the Metropolis would have provided only 25% of net new revenue to this project. This would provide a subvention of \$13.1 million. The hotel incentive policy, however, has not been approved and several amendments to the draft policy would increase the 25% subsidy level to 40% or 50% such as Metropolis.

Since the hotel incentive policy has not been finalized, it is appropriate to set the subvention for the Metropolis project based on the existing economic development policy. As such, the HDIA submitted for Council consideration would provide a subvention of \$13.5 million net present value. Due to the likelihood that the project will generate enough revenue to receive full compensation within eight years, the gross (nominal) amount of the subvention is estimated at \$18.7 million.

As noted, the HDIA is consistent with all other provisions of the approved MOU. The Developer will construct a hotel with 350 rooms that will meet at least a three-star rating. The hotel project

will include the amenities, such as food services, pool and fitness center, business services, and meeting rooms, that are expected in a hotel of this quality. The HDIA provides for a re-evaluation of the development costs once construction is complete in order to reduce the subvention amount if construction costs are lower than estimated, and provides for City review of the hotel operator.

Government Code Section 53083

A law passed by the State legislature in 2013 amended Government Code Section 53083 to require that local jurisdictions report the amount of financial assistance provided in an economic development project and the number of jobs that project will generate. The jurisdiction is also required to report annually on the status of that assistance during the term of the agreement.

The Government Code Section 53083 is provided as Attachment B. The report provides a summary of the HDIA, summarizes the economic impact of the project, and reports the economic opportunities and public purpose of the project. It also reports that the project is estimated to create 1,521 temporary construction jobs. After opening, the project is estimated to create 210 full-time jobs and 70 part-time jobs.

Additional annual reporting on the Project will be required because the HDIA has a term of 25 years. The Economic and Workforce Development Department (EWDD) currently provides these reports on other economic development projects in the City. To achieve efficiency and consistency in such reporting, the EWDD should be authorized to receive the necessary information from the Developer and submit the necessary annual reports for public review.

HDIA Administration

The CAO will be responsible for the administration of the subvention agreement, including the subvention payments and related calculations. The process of determining and making payments on a regular basis wherein the amount is determined based on actual receipts, and not on a set amount, requires flexible processes to ensure timely payments required by the HDIA.

The CAO regularly engages corporate banks for trustee and paying agent services for various bond programs and finds this method to be the most efficient and cost-effective method to handle these transactions. The City has engaged US Bank as trustee for Community Taxing District No. 1 (Convention Center Hotel Project), which has greatly facilitated the administration of this project.

The CAO requests authority to release a Request for Proposals to seek the services of a corporate bank to act as trustee for this project, and all present and future projects that are subject to Subvention Agreements or comparable agreements. Presently, this includes Community Taxing District No. 2 (Grand Avenue Project), Community Taxing District No. 3 (Wilshire Grand), and the Olympic North Hotel Project.

Attachment A	Hotel Development Incentive Agreement
Attachment B	Government Code Section 53083 Report