REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: June 18, 2014

TO: Honorable Members of the City Council

FROM: Gerry F. Miller
Chief Legislative Analyst

Assignment No: 14-06-0459

METROPOLIS HOTEL DEVELOPMENT

SUMMARY

Metropolis is a mixed-use, urban in-fill development consisting of hotel, residential, office and amenity retail uses (Project). 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 recently 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.

Motion (Huizar-Englander, CF #14-0029, Attachment A) authorized the CLA to evaluate the feasibility of the Project and the City revenues that could be generated by the project in an effort to determine whether the City should continue its financial assistance to this project.

Keyser Marston Associates (KMA) was retained to conduct the required analysis. Attachment B is the resultant study, "Metropolis Project – Development Feasibility and Public Revenue Analysis." The feasibility gap on the hotel component of the Project is $70.4 million. If the Developer chose to construct a residential tower instead, the Project would have a feasibility gap of $56.9 million. The difference between hotel construction and residential tower construction, $13.5 million, is the actual gap associated with construction of the hotel.

In addition to feasibility analysis of the project, KMA evaluated the fiscal impact of the project on City revenues. Analysis shows that this project would generate net new property tax, sales tax, transient occupancy tax (TOT), parking occupancy tax (POT), utility users tax, business gross receipts tax, and other local revenues estimated at $156.7 million ($52.5 million net present value). The project would generate $104.6 million in TOT ($34.0 million npv).

Under the proposed Hotel Incentive Policy, the Project would qualify for either 25% of net new revenues or 40% of TOT generated by the project, whichever is less. Under that policy, then, it is recommended that the City enter into an agreement with the Developer to provide $39.2 million ($13.1 million npv) to assist the Metropolis Hotel project.

RECOMMENDATIONS

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

1. Authorize the Mayor to execute a Memorandum of Understanding between the City of Los Angeles and Greenland LA Metropolis Hotel Development LLC concerning terms for agreements necessary to provide a revenue participation agreement to close the financing gap in the Metropolis Hotel development;

2. Direct the Chief Legislative Analyst (CLA) and other City departments as necessary to negotiate the final definitive agreements necessary to provide a revenue participation agreement to support the Grand Avenue Project for consideration by Council.

FISCAL IMPACT STATEMENT

There is no fiscal impact on the City General Fund associated with this action.

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 recently 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.

The Developer has proposed to construct a mixed-use project consisting of five towers in two phases. The first phase would include a stand-alone full-service hotel and one residential tower. The second phase would have a mix of residential and commercial uses in three towers. Ground floor retail space and a plaza are included in the first phase amenities. The parcel of land is currently used as a parking lot and has City-approved plans for the construction of 1.65 million square feet of hotels, multifamily housing, offices and stores within five separate buildings.

The Developer has already held a ground breaking for 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.

Project Design
The hotel proposed for this site would include 350 rooms, comprised of 324 standard rooms and 26 suites. Three food and beverage outlets would be provided, as well as meeting and pre-function space, recreational facilities, and ground-floor, street-level retail amenities. The hotel brand selected by the Developer will be a full-service hotel that is typically ranked as a three-star property, but the Developer indicates that additional design and services would elevate this hotel property in a manner that would raise its quality toward a four-star rating.

City Participation
Motion (Huizar-Englander, CF #14-0029) authorized the CLA to evaluate the feasibility of the project and the City revenues that could be generated by the Project in an effort to determine whether the City should continue its financial assistance to this Project.

Keyser Marston Associates (KMA) was retained to conduct the required analysis. Attachment B is the resultant study, "Metropolis Project – Development Feasibility and Public Revenue Analysis." In this report, KMA evaluates development costs for the hotel and residential components of the project, as well as cash flow that results from these project components.

The result of the feasibility analysis is a determination that the project has a feasibility gap of $127.3 million. Of the total feasibility gap, $70.4 million of the gap is attributed to the hotel component of the project. This significant gap indicates that a hotel would not feasible without financial support from the City.

A critical policy requirement of the City's economic development assistance program is the "but for" directive. City assistance is provided only as a last resort to ensure that a project of importance to City goals is completed. Financial assistance is provided only after economic analysis shows that, but for City assistance, no project would be completed and the City's objectives would not be met. With regard to the Metropolis hotel development, the Developer has indicated that it would construct another residential tower on this site if the hotel had not been requested by the City. As such, there is no "but for" argument for this hotel. If no assistance is provided, the Developer would construct a residential tower instead of a hotel.

As noted above, the feasibility gap on the hotel component of the Project is $70.4 million. If the Developer chose to construct a residential tower instead, the Project would have a feasibility gap of $56.9 million. The difference between hotel construction and residential tower construction, $13.5 million, is the actual gap associated with construction of the hotel.

In addition to feasibility analysis of the project, KMA evaluated the fiscal impact of the project on City revenues. Analysis shows that this project would generate net new property tax, sales tax, TOT, POT, utility users tax, business gross receipts tax, and other local revenues estimated at $156.7 million ($52.5 million net present value). Of that total, $104.6 million ($34.0 million npv) is generated from the TOT. These revenues would be net new General Fund revenues for the City.

In summary, the project has a finance gap of $13.5 million associated with hotel construction and the City's General Fund is estimated to receive $156.7 million ($52.5 million) in net new revenues once the project is completed.

Recommended Financial Assistance
Over the past ten years, the City has provided financial assistance to four hotels. Each of those agreements was negotiated based on the City's economic development policies, which provided no more than 50% of net new revenues or 100% of TOT revenues, whichever was lower, for projects with a demonstrated financial gap. In addition, approved projects have agreed to community benefit programs, guarantees that existing City revenues would be paid, and other terms and conditions.

Concurrent with this feasibility study, the Council has been considering a general hotel incentive policy. This policy includes a Citywide incentive for hotels with 350 or more rooms that would provide financial assistance to projects with a gap. The Citywide incentive is set at 25% of net new revenues or 40% of TOT revenues. The policy also includes several enhanced incentive zones in designated regions of the City, including near the Los Angeles Convention Center (LACC) and in Hollywood and on Century Boulevard.

Under the previous policy, the Project would not qualify for assistance as there is no "but for" argument as discussed earlier. But the Project does qualify for assistance under the proposed Hotel Incentive Policy. Under that policy, 25% of net new revenue is $39.2 million ($13.1 million npv) and 40% of the TOT is $41.8 million ($13.6 million npv). Therefore, it is recommended that the City enter into an agreement with the Developer to provide $39.2 million ($13.1 million npv) to assist the Metropolis Hotel project. This would provide new hotel rooms to serve the growing convention and tourism business, enhance the South Park and LACC area, create new temporary and permanent jobs, and complete a project that had been proposed over 20 years ago.

Although the project is located in the Hotel Incentive Program's LACC enhanced incentive area, it does not include enough rooms or services to qualify for an enhanced incentive. But the project does qualify for the Citywide incentive by inclusion of 350 rooms that will meet or exceed a three star quality rating. The Project would also provide a community benefits program and meet other program requirements.

Memorandum of Understanding
The MOU included as Attachment C to this report provides terms that would serve as the basis for negotiation of the definitive documents necessary to establish the revenue sharing agreement between the City and the Developer. The terms are framed on the information discussed above:

- City enter into an agreement with the Developer to provide $39.2 million ($13.1 million npv) to assist the Metropolis Hotel project.

- The hotel will achieve and maintain a three star rating as defined and as determined by the Mobil Travel Guide, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the Term.

- The Developer shall provide a Community Benefits Package, including card check neutrality, project labor agreement, local hiring, and other elements as required by the Hotel Incentive Program or by agreement with the City.

- The Developer shall ensure that the City is designated as the "point of sale" for construction related costs.

Attachment A	Motion (Huizar-Englander, CF #14-0029)
Attachment B	"Metropolis Project – Development Feasibility and Public Revenue Analysis"
Attachment C	Memorandum of Understanding